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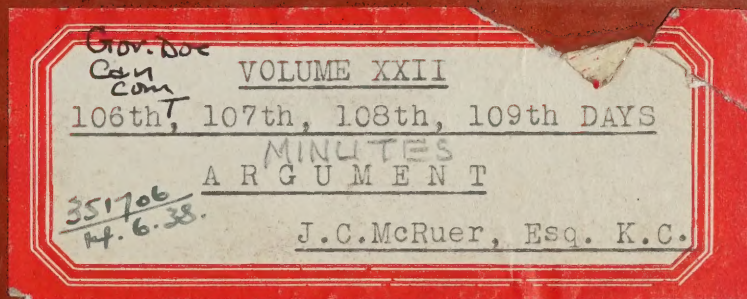
J.C. McRuer

14425-14921

ROYAL COMMISSION ON THE
TEXTILE INDUSTRY

HON. MR. JUSTICE W. F. A. TURGEON
Commissioner

A. S. Whiteley, Secretary



ROBERT BRYDIE
OFFICIAL REPORTER
TORONTO
CANADA



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14425

ROYAL COMMISSION ON THE TEXTILE INDUSTRY

HON. MR. JUSTICE W.F.A. TURGEON,

FEDERAL COMMISSION ON THE TIGLTON IMPROVEMENT

Commissioner,

A.S. Whiteley, Secretary,

ONE HUNDRED AND SIXTH DAY

(February 9th, 1937)

J. CHASE, K.C. and

ARGUMENT

for Primary Textiles
Institute.

0.522424

Index of Exhibits

Ex. No.

Description

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1936 Insurance Appraisal,
Dominion Textile Co. Ltd.

14476

Robert Brydie,
Official Reporter.

1-1-12

THE CANADIAN PRESS

FOR THE YEAR 1911

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ROYAL COMMISSION ON THE TEXTILE INDUSTRY

1937.

MON. MR. JUSTICE W.F.A. TURGEON,

Commissioner,

Mr. HOWARD: May it please the court, it was

mentioned yesterday that there was an impression that

A.S. Whiteley, Secretary, Dominion Cottons Limited was

turned over in 1902 to David Maurice. We happened to

look up the evidence last night at page 5764 and we

A p p e a r a n c e s:

the case; it was Messrs.

Messrs. Blackman & Company.

J.C. McRuer, K.C. and)

E. Beauregard, K.C.) Commission Counsel,

R.L. Kellock, K.C. did not) For Primary Textiles
Institute.

Lordship asked yesterday at what date they offered

C.G. Heward, K.C.) For Dominion Textile

Aime Geoffrion, K.C.) Company.

and)

C.T. Ballantyne,) on which the offer was made by the

S.G. Dixon, K.C.) For Courtaulds Limited,

L.A. Forsyth, K.C.) For Canadian Celanese Ltd. and
for Canadian Silk Products
Limited.

A.S. Bruneau, K.C.) For Canadian Cottons,

Thos. Tremblay, K.C.)

and)

J.H. Hebert,) For M.E. Binz Co. Ltd.

Francois Lajoie, K.C.) For Wabasso Cotton Co.

-- ooo --

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ROYAL COMMISSION ON THE TEXTILE INDUSTRY

HON. MR. JUSTICE W. E. A. TUCKER

Commissioner

A. G. HAMILTON, Secretary

WITNESSES:

R. A. HALLOCK, K.C.)
E. BERNARD, K.C.)
J. C. McROSE, K.C. and)
Commissioner General)
For Primary Textile)
Institute)

O. G. HARRIS, K.C.)
J. M. GIBSON, K.C.)
and)
C. T. O'BRYEN,)
K.C.)

A. G. HARRIS, K.C.)
J. M. GIBSON, K.C.)
For Canadian Cottons Ltd.)
For Canadian Silk Producers)
Limited)

A. G. HARRIS, K.C.)
J. M. GIBSON, K.C.)
For Canadian Cottons)
For M. E. Black Co. Ltd.)
J. H. ROBERT,)

Francis Lajole, K.C.)
For Quebec Cotton Co.)

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1904. They were Lieut.-Colonel Ottawa, Ontario,
February 9th, 1937.

J. P. Ross, Narcisse Rioux, H. M. Price, Rodolphe

--- The Commission resumed at 10.30 A.M.

Forget, Alex. Pringle, and Edgar McDougall.

5 Mr. HEWARD: May it please the court, it was
mentioned yesterday that there was an impression that
the sales agency for Dominion Cottons Limited was
turned over in 1902 to David Maurice. We happened to
look up the evidence last night at page 5764 and we
found that this was not the case; it was Messrs.
10 Stevenson, Blackader & Company.

Step Mr. McRUER: When did it go to Maurice?

15 Mr. HEWARD: We did not run across that. His
Lordship asked yesterday at what date they offered
to purchase the shares of Montreal Cottons Limited--
that is, the date on which the offer was made by the
Montreal Trust Company. At a special meeting of
the shareholders on June 5, 1905, Mr. S. H. Ewing
being president, it was reported to the shareholders
20 that a letter had been received from the Royal Trust
Company on May 30, 1905. It will be noted that this
was several months after the other four constituent
companies had been acquired.

Mr. McRUER: It was in the same year.

25 Mr. HEWARD: Yes. His Lordship also asked for
the directors, and as far as we could find from the
evidence the directors of Montmorency Cotton Mills,
Limited, as appears at page 5823 of the evidence--

Mr. McRUER: I have a reference to page 5816.

30 Mr. HEWARD: Those were the directors who were
elected at the fifteenth annual meeting on October 8,

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Ottawa, Ontario,
February 27th, 1937.

--- The Commission resumed at 10.30 A.M.

Mr. HEWARD: May it please the court, it was mentioned yesterday that there was an impression that the sales agency for Dominion Cotton Limited was turned over in 1902 to David Maurice. We happened to look up the evidence last night at page 5764 and we found that this was not the case; it was Messrs. Stevenson, Blackader & Company.

Mr. McHURR: When did it go to Maurice?
Mr. HEWARD: We did not run across that. His Lordship asked yesterday at what date they offered to purchase the shares of Montreal Cotton Limited-- that is, the date on which the offer was made by the Montreal Trust Company. At a special meeting of the shareholders on June 5, 1905, Mr. S. H. Zwing being president, it was reported to the shareholders that a letter had been received from the Royal Trust Company on May 30, 1905. It will be noted that this was several months after the other four constituent companies had been acquired.

Mr. McHURR: It was in the same year.
Mr. HEWARD: Yes. His Lordship also asked for the directors, and as far as we could find from the evidence the directors of Montgomery Cotton Mills, Limited, as appears at page 5823 of the evidence--
Mr. McHURR: I have a reference to page 5816.
Mr. HEWARD: Those were the directors who were elected at the fifteenth annual meeting on October 6,

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1904. They were Lieut.-Colonel F. C. Henshaw, J. P. Ross, Narcisse Rioux, H. M. Price, Rodolphe Forget, Alex. Pringle, and Edgar McDougall.

The COMMISSIONER: What company is that ?

Mr. HEWARD: Montmorency Cotton Mills. Then,

of the Colonial Bleaching and Printing Company, the directors elected at the annual meeting on April 26, 1904, are stated in the evidence--at page 5840--to have been: H.S. Holt, Alphonse Racine, Charles R.

Hosmer, Frank Paul, George F. Hartt, and J. W.

Stephens, Jr. I am under the impression that it was probably Mr. G. W. Stephens, Jr. The directors

of the Merchants Cotton Company Limited are shown in the evidence at page 5788. They were present at

a meeting of the directors on April 21, 1903, the last list we could find in the evidence, and they

were: Messrs. Crathern, Cleghorn, Hodgson, MacKay, and Cheney. It was indicated that there were also

present Messrs. Ayer, Angus, and Beattie. For the Dominion Cotton Mills, Limited, the evidence at page

5744 shows the following to have been the directors at the annual meeting in 1901--M

Mr. McRUER: There is one later, at page 5770.

Mr. HEWARD: We did not get that.

Mr. McRUER: The directors, as given at page 5770, are: C. B. Gordon, Hon. L. J. Forget, H. S. Holt, J. P. Black, and D. Williamson.

The COMMISSIONER: What was the date of that ?

Mr. McRUER: That was at the meeting of the board of directors, September 6, 1905. It will be found

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1904. They were listed--Colonel W. O. Henshaw,
J. P. Ross, Narcisse Rivet, H. M. Price, Rodolphe
Forget, Alex. Pringle, and Edgar McLaughlin.
The COMMISSIONER: What company is that?
MR. HENRY: Montmancy Cotton Mills. Then
of the Colonial Bleaching and Printing Company, the
directors elected at the annual meeting on April 20,
1904, are stated in the evidence--at page 5840--to
have been: H. S. Holt, Alphonse Racine, Charles E.
Homer, Frank Paul, George E. Herft, and J. W.
Stephens, Jr. I am under the impression that it
was probably Mr. G. W. Stephens, Jr. The directors
of the Montmancy Cotton Company Limited are shown
in the evidence at page 5768. They were present at
a meeting of the directors on April 21, 1903, the
last list we could find in the evidence, and they
were: Messrs. Stephens, Cleghorn, Hodgson, Mackay,
and Cheney. It was indicated that there were also
present Messrs. Ayer, Angus, and Beattie. For the
Dominion Cotton Mills, Limited, the evidence at page
5744 shows the following to have been the directors
at the annual meeting in 1901--
MR. McHUR: There is one later, at page 5750.
MR. HENRY: We did not get that.
MR. McHUR: The directors, as given at page 5750,
are: C. B. Gordon, Hon. J. L. Forget, H. S. Holt,
J. P. Black, and D. Williamson.
The COMMISSIONER: What was the date of that?
MR. McHUR: That was at the meeting of the board
of directors, September 6, 1903. It will be found

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at page 5770 of the evidence.

The COMMISSIONER: That would be the Dominion Textile Company.

Mr. McRUER: That would be after they got control.

The COMMISSIONER: Which company are you referring to ?

Mr. HEWARD: Dominion Cottons. The last list, before they changed over, will be found in the evidence at page 5744. It comprises the following directors: A. F. Gault, J. A. C. Grenier, Samuel Finley, S. H. Ewing, C. E. Gault, Hon. H. J. Forget, C. R. Whitehead, and the vice-president, James Wilson. Mr. Gordon tells me that, reading through the minutes yesterday, he saw that Mr. Whitehead had left as joint general manager in 1902, so that he probably left the board in 1902.

Mr. McRUER: He was dismissed.

Mr. HEWARD: His resignation was accepted. It will be seen therefore, that according to these four lists which I have given there is no duplication whatever of directors.

Mr. McRUER: I was making the point, in reference to this mill, that the special committee was appointed, as indicated at page 130 of my brief--that is, the special committee that was appointed to represent these different companies: James Crathern and Senator MacKay for the Merchants Cotton Company; H. S. Holt, representing the Colonial Bleaching Company; Senator Forget and S. H. Ewing representing the Dominion Cotton Company; and David Maurice, Sr., who was

14430

appointed. David Maurice, Sr., does not seem at this time to have been on the directorate of any of these companies, although his name was certainly a familiar one.

5

The COMMISSIONER: If you are referring to page 130 you have the wrong page.

Mr. McRUER: I beg Your Lordship's pardon; it should be page 138.

10

The COMMISSIONER: What is the point in that connection ?

Mr. McRUER: I was referring to the subcommittee of the directors. These men are directors of these companies: Ewing was on Montreal Cottons--

15

The COMMISSIONER: No; Ewing was on Dominion Cottons.

Mr. McRUER: But he was on Montreal Cottons as well.

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The COMMISSIONER: I asked whether there was any interlocking among the directors.

Mr. McRUER: He had not gone in at this time; Ewing fought going in at this time.

Mr. HEWARD: He fought it later.

25

The COMMISSIONER: In so far as these four companies are concerned was there any interlocking ? Was S. H. Ewing also a director of Montreal Cottons ?

30

Mr. McRUER: Yes, and so were the Gaults. When we look at the list of the members of the syndicate we find that the members of the committee who were appointed as representing the boards of directors for the purpose of bringing about a better working

appointed. David Macdonald, ex., does not seem to
this. The only one who was appointed in 1880
those companies, although his name was certainly a
familiar one.
The Commission: If you are referring to page
180 you have the wrong page.
Mr. Macdonald: I see your Lordship's position; it
should be page 188.
The Commission: What is the point in that con-
nection?
Mr. Macdonald: I was referring to the shareholders
of the directors. These men are directors of these
companies; living was on Montreal Cottons--
The Commission: No; living was on Montreal
Cottons.
Mr. Macdonald: But he was on Montreal Cottons as
well.
The Commission: I asked whether there was any
interlocking among the directors.
Mr. Macdonald: He had not come in at this time;
being caught going in at this time.
The Commission: In so far as these four com-
panies are concerned was there any interlocking?
Mr. Macdonald: Yes, and so were the banks. When
we look at the list of the members of the banks
we find that the members of the banks are
appointed as representing the boards of directors for

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arrangement among the companies also turn up on the syndicate, being subscribers to this fund of \$500,000 for which they got common stock.

5 The COMMISSIONER: That applies to Holt and Forget ?

Mr. McRUER: It applies to Crathern, MacKay, Forget and Holt, but does not apply to Ewing or Maurice.

10 The COMMISSIONER: It does not apply to Maurice ?

Mr. McRUER: Yes; I see that David Maurice is on.

Mr. HEWARD: Crathern is not on.

15 Mr. McRUER: Crathern was not in the syndicate; that is right. It does not apply to Crathern or Ewing.

The COMMISSIONER: You will find them on page 140.

20 Mr. McRUER: My learned friend has this morning furnished me with information with respect to a matter which we discussed yesterday. I refer to the question as to when the Dominion Textile Company obtained the numerical majority of the shares of the Montreal Cotton Company. That was during 1930. I had said yesterday that it was either 1929 or 1930. 25 The fact is that they had the actual numerical control from 1930 on. They held between 12,000 and 13,000 shares from 1925 on, but it was not until 1930 that they got over the 15,000 shares required to give them control.

30 Mr. HEWARD: They got 15,050 shares in April 1930.

Mr. McRUER: We will deal with Montreal Cottons

arrangement among the companies also turn up on the
syndicate, being subscribers to this fund of \$500,000
for which they got common stock.

The question is: That applies to both and

Mr. Tolson: It applies to both, but not to the
United and Holt, but does not apply to United or

Meritor.

The question is: It does not apply to Meritor?

Mr. Tolson: Yes; I see that Meritor is on.

Mr. Tolson: Graham is not on.

That is right. It does not apply to Graham or

Mr. Tolson: By learned friend has this morning

furnished me with information with respect to a

matter which we discussed yesterday. I refer to the

question as to when the Dominion Textile Company

obtained the numerical majority of the shares of the

company in 1930.

I had said yesterday that it was either 1929 or 1930.

The fact is that they had the actual numerical con-

trol from 1930 on. They held between 18,000 and

20,000 shares from 1929 on, but it was not until 1930

that they had the actual control.

That is correct.

Mr. Tolson: Yes, that is correct.

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later. Now we come to page 156. When we adjourned we were discussing whether or not the minute that was referred to referred to the year 1926 or 1925. I have satisfied myself that 1926 should appear at the top of page 156.

Mr. HEWARD: The 11th of May, 1926 ?

Mr. McRUER: The annual meeting in May, 1926.

The COMMISSIONER: Are you referring to the third paragraph ?

Mr. McRUER: It was stated that the company had no export trade whatsoever and no probability of having any.

The COMMISSIONER: And that should have reference to the year 1926 ?

Mr. McRUER: Yes.

The COMMISSIONER: Was that the annual meeting ?

Mr. McRUER: Yes. It was stated to the meeting that fifty per cent of the imports could be eliminated if the company had the opportunity of working under an equitable tariff. Where the point arose yesterday was as to when that statement was made. It was made in May, 1926, and the figures we gave your Lordship yesterday of imports into Canada were for the year 1926.

The COMMISSIONER: If we could discover what the imports were and what this elimination of fifty per cent would amount to we would know what the company meant by an equitable tariff.

Mr. McRUER: We gave the figures for the calendar year 1926.

[illegible]

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Mr. HEWARD: And it should be for 1925.

Mr. McRUER: We can get them for 1925; they were not immediately available. It was, however, stated at the meeting, as you will find in the second paragraph of the brief at page 156, that imports could be eliminated to the extent of fifty per cent by means of an equitable tariff.

The COMMISSIONER: That must have had reference to imports for a past period, which would more likely be 1925.

Mr. McRUER: Yes, probably. The brief goes on:

"At the meeting held on the 11th May, 1927 it was stated that the company had built a considerable addition to the Montmorency mills, and that within sixty days they would have completed the revamping and realigning of the machinery in the plant from one end to the other,--"

The COMMISSIONER: Can you find out who the president and directors were when that statement was made?

Mr. McRUER: Yes; we might supply that information now. The annual statements are printed. In the directors' report for the annual meeting for the year ended March 31, 1926, the board of directors are stated to be: Sir Charles B. Gordon, president; vice-president, Sir Herbert Holt; directors: J. I. Black, C. R. Hosmer, F. G. Daniels, W. A. Black, and James H. Webb. The directors' report is signed by Sir Charles Gordon, but the statement to which I refer is not taken from the printed statement sent to

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...that should be no to answer

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the shareholders. But from the minute book setting out the proceedings at the meeting. To resume the brief:

"At the meeting held on the 11th May, 1927, it was stated that the company had built a considerable addition to the Montmorency mill and that within sixty days they would have completed the revamping and realigning of the machinery in the plant from one end to the other, and that this would reduce the cost of operation and handling. At all the other plants considerable machinery had been added throughout the year, and particular attention had been paid to the carding and picking. There were cards left that are ten years old."

I wish to emphasize that because it is important when we come to discuss the question that was raised by Mr. Howson and with respect to which he and Mr. Glasco disagree to a certain extent, as to the real value of this plant.

The COMMISSIONER: At what time?

Mr. McRUER: The value to-day. We have the statement here as to additions that were being made to the mill, the revamping process that had gone on, and the condition in which it was being put in 1927. In addition to that, it is rather informative in view of the statement that was made at the previous meeting with respect to the competition they were receiving from abroad. The brief goes on:

"The average life of a card is from thirty

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to forty years."

So that when we are considering the question of depreciation--excessive depreciation--and so on that is an informative statement.

"It was decided to add eight additional printing machines to the Magog plant, with a general revamping of the plant throughout to take care of the particular requirements.

Complaint was made that competition was very keen, particularly from Great Britain, in grey and medium class white goods; that the protection afforded was not equal to the actual difference of labour in Canadian mills and the Lancashire mills."

We found how the company was carrying on at that time, and later on I shall deal particularly with the dividends paid, their earnings and so on, over this period of time when, according to their statement, they were carrying on under a protection that was not equal to the actual difference in labour between Canadian mills and those in Lancashire. On the other hand, we find that the protection they now have is more than their whole percentage of labour costs in different instances.

"It was stated, however, that for the next three or four months they expected to be operating to as nearly full capacity as at any time during the past two or three years."

So that with competition and all, the situation did not seem to be so bad--that is, for 1927. Then we

1911

at the time

the fact that the company was carrying on at the time
the protection was not equal to the actual difference of labour in Lancashire and the Lancashire Mills.

is an interesting statement.

"It was decided to add eight additional printing machines to the Lancashire plant, with a general reworking of the plant throughout to

the end of the year 1911.

Comparison was made that protection was

very keen, particularly from Great Britain,

in stock and selling class white goods; that

the protection afforded was not equal to the

actual difference of labour in Lancashire and the Lancashire Mills.

and the Lancashire Mills.

is found how the company was carrying on at the time, and later on I shall deal particularly with the

period of time when, according to their statement, the

were carrying on under a protection that was not equal

to the actual difference in labour between Lancashire

and those in Lancashire. On the other hand,

we find that the protection they now have is more than

their whole percentage of labour costs in different

instances.

"It was stated, however, that for the next

three or four months they expected to be operating

at a level that was not as at any time

during the past few years.

That with competition in all the world

the company is now in a position to

proceed to 1928:

5 "At the meeting of May 16, 1928, it was
stated that all plants had run to capacity for
the first six months of the year. During the
last six months it had been reduced from between
75 per cent and 50 per cent. During the year
the Tariff Advisory Board had reviewed the
conditions in the cotton industry. The chair-
10 man found it difficult to reconcile the facts
laid before the board with the recent tariff
submitted by the Minister of Finance. The pro-
ducts of the company were given a reduction of
from 2 1-2 per cent to 7 1-2 per cent, in addi-
15 tion to a number of reductions to the already
inadequate tariff.

It was also stated that during the year
a considerable number of extensions to the plant
had been made, and that a building had been
20 added to the Montmorency plant."

The COMMISSIONER: It is stated here that "the
chairman found it difficult to reconcile the facts
laid before the board with the recent tariff submitted
by the Minister of Finance". Does that refer to
25 the tariff board ?

Mr. Mc RUER: Yes.

The COMMISSIONER: That is the board of which Mr.
Moore was chairman ?

30 Mr. McRUER: Yes. Most of the cotton schedules
that we have put in indicate that there was a down-
ward revision of the tariff in 1928 in respect of

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1914

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stated that all plants had been to capacity for the first six months of the year. During the last six months it had been reduced from 75 per cent and 50 per cent. During the year the Tariff Advisory Board had reviewed the conditions in the cotton industry. The Board had found it difficult to reconcile the facts and before the Board with the recent tariff submitted by the Minister of Finance. The Board of the company were given a reduction of from 2-1-8 per cent to 7-1-2 per cent, in addition to a number of reductions to the industry in adequate tariff.

it was also stated that during the year a considerable number of extensions to the plant had been made, and that a building had been added to the machinery plant.

The Board of the company: It is stated here that the Chairman found it difficult to reconcile the facts and before the Board with the recent tariff submitted by the Minister of Finance. The Board of the company were given a reduction of from 2-1-8 per cent to 7-1-2 per cent, in addition to a number of reductions to the industry in adequate tariff.

The Board of the company: It is stated here that the Chairman found it difficult to reconcile the facts and before the Board with the recent tariff submitted by the Minister of Finance. The Board of the company were given a reduction of from 2-1-8 per cent to 7-1-2 per cent, in addition to a number of reductions to the industry in adequate tariff.

The Board of the company: It is stated here that the Chairman found it difficult to reconcile the facts and before the Board with the recent tariff submitted by the Minister of Finance. The Board of the company were given a reduction of from 2-1-8 per cent to 7-1-2 per cent, in addition to a number of reductions to the industry in adequate tariff.

The Board of the company: It is stated here that the Chairman found it difficult to reconcile the facts and before the Board with the recent tariff submitted by the Minister of Finance. The Board of the company were given a reduction of from 2-1-8 per cent to 7-1-2 per cent, in addition to a number of reductions to the industry in adequate tariff.

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The Board of the company: It is stated here that the Chairman found it difficult to reconcile the facts and before the Board with the recent tariff submitted by the Minister of Finance. The Board of the company were given a reduction of from 2-1-8 per cent to 7-1-2 per cent, in addition to a number of reductions to the industry in adequate tariff.

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cottons. There are one or two instances in which it was increased, but for the most part it was a downward revision. I repeat the last paragraph:

5 "It was also stated that during the year a considerable number of extensions to the plant had been made, and that a building had been added to the Montmorency plant."

10 This seems to be typical of what we find all the way through the minutes--complaints about insufficient tariff protection and, in the same breath, statements that plants are being added to and productive capacity is being increased. This is not in the record, but I do not think Mr. Bruneau will disagree with me when I make this statement. There has appeared in the press since this commission concluded the taking of evidence that Canadian Cottons were constructing a new building at Cornwall.

15 Mr. BRUNEAU: We are building a new warehouse at Cornwall for the purpose of meeting the requirements of the wholesaler. We have to stock up more goods all the time.

20 Mr. McRUER: At any rate, they are hopeful that they will be in business for a while yet. I understood that there was a considerable outlay of money.

25 The brief goes on:

30 "The Chairman stated that a great deal of money had been spent in getting new plant and machinery, in keeping things up to date, and that in weaving especially they had many machines now that they did not have before."

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...been added to the ...
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...disagree with me when I make this statement. ...
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...disagree with me when I make this statement. ...

...of the wholesaler. We have to stock up more goods ...
...of the wholesaler. We have to stock up more goods ...
...of the wholesaler. We have to stock up more goods ...
...of the wholesaler. We have to stock up more goods ...
...of the wholesaler. We have to stock up more goods ...

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5 I have copied the precise words from the minutes
of the company because they are rather important in
relation to those aspects of the inquiry concerning
which my friend Mr. Beauregard will have something to
say touching the mechanical changes and their effect
upon the employees. It has been stated in the witness
box that these mechanical changes did not result in a
reduction in the number of employees in the way in
10 which it was suggested that they did, because, although
they would put in automatic looms, they would engage
an expert to look after the looms, and do nothing
else, while on the other hand there would have to be
oilers, cleaners and so on in addition to the expert.
15 Although the expert was responsible for increasing the
looms up to thirty, forty, or even a hundred, at the
same time he was doing nothing except attending to
the looms, whereas before he looked after cleaning
and so on. I have copied this statement for the
20 purpose of showing exactly what they themselves had
to say about the effect of the new machinery that was
being installed. The brief then goes on:

"The Chairman continued:

'In the Mount Royal mill we took Lord

25 Willingdon over and he remarked, 'I do not see
many people in this mill at all'. As a matter
of fact, there are not very many because (depend-
ing on the class of goods) we have up to sixty
looms to the weaver, and that is only one of
30 our mills. Under these conditions it is no
wonder there are not so many people to be seen!"

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So there we have their own statement, made to their shareholders at that time, as to the effect of advances in the mechanization of the industry.

"It was stated by Mr. Daniels:

'There have been more changes in the process of manufacturing cotton goods in the last three years than in the last fifty to one hundred years. By means of time studies, we have determined cause and effect and have gone out to eliminate waste. The causes for warp breaks, for instance, the result had been that we have in the Mount Royal mill reduced the warp breaks from what was normal condition of about twenty-five breaks per loom per day to between four and six a day, and that has allowed the weaver to handle four or five times as many looms as he or she was handling before, without any delay in the work.'"

Everyone will admit, I think, that Mr. Daniels was a very experienced and able officer, and that is what he stated to the shareholders, and what they saw fit to record in their minutes. It may be taken therefore to be fairly authentic. To go on with the brief:

"On the 7th June, 1929, a special meeting of

shareholders was called to ratify a by-law to increase the authorized common share capital of the company from 225,000 to 350,000 shares.

This was to provide funds for the purchase of the Drummondville plant and other purposes.

Forty-five thousand of these shares were issued

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to them we have their own statement, and to
their shareholders at that time, as to the effect of
advances in the mechanization of the industry.

"It was stated by Mr. Daniels:

"There have been more changes in the process
of manufacturing cotton goods in the last thirty
years than in the last fifty or one hundred years.
My terms of time allowed, we have determined
cause and effect and have gone out to eliminate
waste. The causes for warp breaks, for instance,
the reason had been that we have in the recent
past will reduce the warp breaks from what was
normal condition of about twenty-five breaks
per loom per day to between four and six a day
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or five times as many looms as he or she was
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Everyone will admit, I think, that Mr. Daniels
was a very experienced and able officer, and that is
what he stated to the shareholders, and what they
fit to record in their minutes. It may be taken
therefore to be fairly authentic. To go on with it

brief:

"On the 7th June, 1939, a special meeting
shareholders was called to ratify a by-law to
increase the authorized common share capital of
the company from \$25,000 to \$50,000 shares.

This was to provide funds for the purchase of

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"at \$75 per share one to each holder of five shares of common stock.

At the annual meeting held 15th May, 1929, it was reported that the Sherbrooke Cotton Company Limited, and the Drummondville Cotton Company Limited had been purchased.

The Chairman stated:

'That they had had a very satisfactory year in many respects.'

At the meeting of the 26th June, 1930, the chairman complained that there was no effective application of the dumping clause in the tariff nor any attempt made to apply the British content clause to the British preferential tariff on British cottons."

That is rather an indictment of the Department of National Revenue and I do not believe that any evidence has been tendered by the industry to support such a charge or to show that they had made complaints of dumping which had not been properly looked into. Mr. Whitehead, at Three Rivers, did make the suggestion that the dumping clause had not been properly applied, but when we got down to examine him we found that the incident had reference to some goods that he had himself bought and imported, and that was investigated by the department, who came to the conclusion that the goods had not been sold to him at less than the fair market price for home consumption in Great Britain. When he was examined with reference to the matter the charge was rather petered out and everything

at 75 per share and to each holder of five shares of common stock.

At the annual meeting held 1949 May, 1950, it was reported that the Corporation's common stock had been sold at 75 per share and to each holder of five shares of common stock.

The witness stated: "That they had a very high price for the stock in many respects."

At the meeting of the 24th June, 1950, the witness complained that there was no effective application of the funds of the Corporation and that any attempt was to apply the funds to the purchase of the stock of the Corporation.

That is rather an indication of the fact that of national revenues and I do not believe that any evidence has been gathered by the industry to show a change or to show that they had been compelled to dump what had not been properly looked into.

Mr. Whitcomb, at three times, did not see the evidence that the dumping charges had not been properly applied, but when we got down to examine him we found that the incident had reference to some goods that had himself bought and imported, and that was later testified by the Government, and even to the fact that the goods had not been sold to him at less than the fair market price for goods manufactured in the United States. When he was examined with reference to the goods he said that he had not seen the goods.

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in general was left in the air. It is easy to make these general statements, but though the industry have had an opportunity to prove before the commission that there has been any lack of enforcement of the customs laws they have not done so. There has not been much indication that the customs officials have not been both efficient and anxious to do their duty.

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these general statements, but through the industry
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sion that there has been any lack of enforcement of
the customs laws they have not done so. There has
not been much indication that the customs officials
have not been both efficient and anxious to do their
duty.

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" It was stated that owing to conditions it was deemed necessary to close the Kingston Mill"-

THE COMMISSIONER: What kind of a closing was that, a permanent closing?

5 MR. MCURER: Yes, it was closed up. It was one of the number that I enumerated that had been closed

"That the work of reconditioning the machinery in the Drummondville and Sherbrooke plants had been completed and that the plants were in excellent condition.

10 It was stated that for over two years the country had been overrun with surplus quantities of reserve stocks of one kind or another, and that the stocks were dumped over here and that representations had been made to the Government as to that."

15 That is another charge against the Government officials.

" The Chairman stated:

20 "Whether the Government intends to enforce the Act or not is questionable, but until ports of entry for textiles are brought down to not more than three or four, with competent experts put in charge, this country is going to be up against the same proposition."

25 THE COMMISSIONER: What about that? Are there any designated ports of entry for textiles?

MR. MCURER: No, I don't think so; any port -- that is true, isn't it?

MR. GORDON: I don't know the exact number. There is something over 100, anyway.

30 MR. MCURER: Any port of entry is a port of entry

It was stated that owing to conditions it was
deemed necessary to place the "Hudson River"
THE COMMISSIONER: What kind of a closing was that?

a permanent closing?

MR. McRUM: Yes, it was closed up. It was one

the same case, I understand, that had been closed

"That the work of reconditioning the machinery in

the machinery and that work was done in the

condition and that the work was done in the

condition.

It was stated that the work was done in the

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Act or not is questionable, but until ports

entry for textiles are brought down to not

more than three or four, with competent ex-

put in charge, this country is going to be

against the same proposition."

THE CHAIRMAN: That is all right. The next

designated ports of entry for textiles?

MR. McRUM: No, I don't think so; any port --

is that, isn't it?

MR. GORDON: I don't know the exact number. There

is something over 100, anyway.

MR. McRUM: And that is the way it is now.

for textiles?

MR. GORDON: Yes.

THE COMMISSIONER: There are none designated specially?

5 MR. GORDON: No, sir. There are better staffs at some ports than others. There are no designated ports.

MR. MC RUER: "At the annual meeting held in July, 1931, it was stated that the new Government had revised in part the cotton schedule and afforded a very welcome and necessary relief. It was also
10 stated that prices were extremely close.

At the Annual Meeting of June, 1932, it was stated that sales were reduced 9.2% for the year, although the company had produced and shipped
15 1,661,000 more yards of cloth.

Mr. Daniels stated that he was glad to be able to say that during the last three months the Government had taken steps to stop the dumping of cotton goods into Canada, with beneficial results."

20 You will recollect, no doubt, that what Mr. Daniels had reference to was the publication of the appraiser's bulletin in April, 1932. Now, the reference to dumping there is an entirely different thing. The appraiser's bulletin was designed to increase the
25 selling price for duty purposes. It was not the stopping of dumping. They were selling them at the price they were selling them in the States, but they were too low to suit the Canadian manufacturer.

30 THE COMMISSIONER: Oh, I think so. The word "dumping" has arrived at such a very general and indef-

For further

Mr. Gordon: No, sir.

THE COMMISSIONER: There are none designed for

Specialty?

MR. GORDON: No, sir. There are better styles of some ports than others. There are no designated ports

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1932. The cotton schedule was revised and shipped

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to say that during the last three months the

Government had taken steps to stop the dumping of

cotton goods in to Canada, with beneficial results.

You will recollect, no doubt, that what Mr. Daniels has

stated is that the Government is doing a very good job

in stopping the dumping of cotton goods in to Canada.

The dumping there is an entirely different thing. The

appraiser's office is designed to increase the

selling price for duty purposes. It was not the

purpose of the office. The selling price is not

very high, but it is high enough to make the

were too low to suit the Canadian manufacturer.

THE COMMISSIONER: Yes, I think so. The

selling price is not very high, but it is high enough to

make the Canadian manufacturer happy.

THE COMMISSIONER: Yes, I think so. The

selling price is not very high, but it is high enough to

make the Canadian manufacturer happy.

inite meaning that people use it for all sorts of things.

MR. McFUEER: Oh yes, I think that is quite correct.

THE COMMISSIONER: If things come in for any reason or other they are dumped.

MR. McFUEER: If they come in and the price is lower than it is thought it ought to be I think it is rather a popular term to apply to it. Just to what extent the results were beneficial we dealt with when we were dealing with the specific items, and we have it both ways. We have Mr. Hooper's direct evidence in respect to the benefits the Canadian industry got by being able to charge prices that were very much higher than in the United States, and we have got Mr. Daniels' own statement of the beneficial results to the industry, and in considering these we must consider that it was the consumer who provided the beneficial results. Otherwise he would have bought where the price was lower.

" It was stated that a report had been circulated that Mr. Ferguson, the High Commissioner for Canada, in London, had been quoted as saying that the effect of the approaching Imperial Conference would undoubtedly result in the closing of a number of shoe and textile factories in the Province of Quebec.

Mr. Daniels stated that the report had been subsequently denied, but that he had had innumerable inquiries with regard to the effect that the approaching conference would have on Canadian industry and

into making that people was it for all sorts of
things.
MR. MATHUR: Oh yes, I think that is quite correct.
THE COMMISSIONER: If things come in for any reason
or other they are changed.
MR. MATHUR: If they come in and the price is low
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Canada, in London, had been quoted as saying that
the effect of the agreement had been beneficial to
would undoubtedly result in the closing of a
number of shoe and textile factories in the
country.
Mr. Daniels stated that the report had been
expressly stated, that he had seen the
inquiries with regard to the effect that the
the industry would have on the Canadian industry.

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"particularly on the cotton industry.

Mr. Daniels' statement was as follows:

My answer is, that I cannot see how it could have any detrimental effect, for the following reasons:-

The cotton industry in Canada is well balanced to produce the bulk of the requirements of the trade here. It is considered that in general it is up to date in its methods of manufacturing and equipment to produce and distribute economically considering the population and the territory covered.

Mr. Daniels also stated:

A tariff is intended to preserve the home market for the Canadian Manufacturer for those goods he is capable of producing economically, and to meet those higher costs of production that are largely beyond his control."

Now, that is a doctrine that Mr. Daniels laid down that I think we must disagree with. A tariff can hardly be designed to preserve any market for manufacturers but evidently that is what has been contended before this Commission many times. Then, in 1933--

"It was stated that the plants had been maintained in excellent repair, and that any manifest improvements in machinery or manufacturing methods that might tend to increase the manufacturing efficiency of the mills and lower the cost of production had been adopted."

So that that is important when I come to deal with the

“Not finally only on the cotton industry.”

Mr. Daniels' statement was as follows:

AM 10:00 a.m. to 12:00 p.m.

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financial condition of the company later on.

" It was stated that the dividend on the common stock had been reduced from \$5.00 to \$4.00 per share and that wages had been reduced 10 to 20%.

At the General Meeting of shareholders held in May, 1934, it was stated that import of cotton goods under the provisions of the Ottawa- United Kingdom Trade Agreements had shown a great increase, and that importations were up 72% over the year 1932.

Wages were increased by 5%."

Now, if we look at the annual statements we will find that 1934 was one of the banner years for this company in the way of profits although they were complaining about the competition again from Great Britain. In 1935 --

"It was stated that the duties established in 1930"-- and here is a very specific statement --

"--constituted the minimum protection which might serve to meet the situation as it then existed; that new factors had arisen in the meantime necessitating a higher scale of duties to effect that minimum protection; and that the preferential scale of the 1930 tariff had been thrice reduced."

So that is a specific statement that in 1935 the duties were too low, and that the protection that the industry had in 1930 was the minimum protection that it could get along with. Now, having regard for the prosperity of the industry up until 1930 that is a pretty severe demand on the consumers of Canada.

" It was stated that the Company for many years

financial condition of the company later on.
" It was stated that the dividend on the common
stock had been reduced from \$5.00 to \$4.00 per
share and that wages had been reduced 10 to 20%.
At the General Meeting of Shareholders held
May, 1934, it was stated that import of cotton
goods under the provisions of the Ottawa-United
Kingdom Trade Agreement had shown a great increase
and that importations were up 75% over the year
before. These were increased by 25%.
Now, if we look at the annual statements we will
find that IWA was one of the banner years for this
company in the way of profits although they were
complaining about the competition again from Great Britain.
In 1935 --
"It was stated that the duties set down in 1930
and here is a very specific statement --
"--constituted the minimum protection which might
serve to meet the situation as it then existed;
that new factors had arisen in the meantime necessitating
a higher scale of duties to effect that
minimum protection; and that the protection of
of the 1930 tariff had been thereby reduced."
So that is a specific statement that in 1935 the
duties were too low, and that the protection that
industry had in 1930 was the minimum protection that
could get along with. Now, having regard for the
condition of the industry in 1935, it is not
surprising that the duties were increased in 1935.

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proper
"had been taking steps to safeguard the position
of employees and their families in sickness, death
and old age."

I think that is a rather sweeping statement. It might
be more accurate to say they had taken steps to see
that the position of some of the employees was safeguarded
in regard to old age. There was some evidence at Sher-
brooke that they had a group insurance scheme to which
the employees contributed a portion and the company a
portion, but as to sickness and death generally I
don't recollect that there is any general scheme of
that sort.

MR. GORDON: Not over the employees as a whole.

MR. McRUER: Not over the employees as a whole.

MR. GORDON: There is a group life -- I don't know
whether it is in evidence, though -- a group life
scheme.

MR. McRUER: Covering the employees as a whole?

MR. GORDON: No.

MR. McRUER: There was one at Sherbrooke.

MR. GORDON: Yes, but that was sickness, though.

MR. McRUER: I thought we had a policy filed, a
life policy at Sherbrooke. Was that just sickness?

MR. GORDON: Yes.

MR. McRUER: "That \$73,154.75 had been paid in
pensions to retired employees over the last year,
bringing the amount paid since 1923 up to
\$565,997.14.

A Group Life Insurance plan was put into effect,
providing insurance of \$625,000 on the lives of
the employees. the Com

"and some of the things in connection with the
of the company and their policies in relation to
and old age."

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whether it is in evidence, though -- a group life
scheme.

MR. McLELLIN: Covering the employees as a whole?
MR. GORDON: No.

MR. McLELLIN: I thought we had a policy filed, a
group life policy, covering the employees.
MR. GORDON: Yes.

MR. McLELLIN: That \$75,154.75 had been paid in
payments to retired employees over the last year
\$565,997.14.

A group life insurance plan was filed in
connection therewith at \$250,000 on the 11th of

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"the employees, the Company contributing a share of the premium. Accident and Sickness insurance is in effect in certain of the plants where the workers in sufficient numbers have signified their interest. In such cases the Company absorbs part of the cost of protecting the employees.

In the report to the shareholders for the year 1936, the amount of taxes paid by the Company is emphasized."

And this is important in another branch of my brief that I deal with.

" It is stated that the governments of one kind and another are the real preferred shareholders as their takings this year represent earning of \$42.00 per share on the Company's Preferred issue.

After referring to wages paid by the Company, the report goes on to say:

' The levels of value at which Cotton and Rayon textiles can now enter Canada from the United Kingdom, the United States"-- we have had evidence in respect to that --"and Japan, under tariff arrangements concluded in recent months, have brought matters to the point where it may be impossible to pursue our previous policy, having due regard to the ultimate welfare of all concerned"'

THE COMMISSIONER: Pardon me a moment for interrupting; you say that statement was made in June, 1935?

MR. McRUER: June, 1936.

THE COMMISSIONER: Where -- oh yes, I see. You say "in the report to the shareholders for the year 1936";

"the employees, the company contributing a share of the premium. Assistant and Japanese insurance in effect in certain of the plants where the workers in sufficient numbers have affiliated the interest. In such cases the company absorbs part of the cost of protecting the employees.

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"It is stated that the government of one kind and another are the real preferred shareholders as their interest will be increased during the \$42.00 per share on the company's preferred issue after retaining to wages paid by the company the report goes on to say:

"The levels of value at which cotton and rayon production can now enter 3 areas from the United Kingdom, the United States-- we have had only in respect to that --"and Japan, under tariff arrangements concluded in recent months, have brought matters to the point where it may be impossible to pursue our previous policy, leaving due regard to the ultimate welfare of all concerned."

you say that statement was made in June, 1935? MR. WATKINS: June, 1935.

THE CHAIRMAN: Where -- oh yes, I see. You

that is what you say. That is in June, is it?

MR. McRUER: Yes, my lord.

"The loss involved in producing goods on our former scale, a large proportion of which may now only be sold at prices below the cost of production"--

these are the very very sweeping statements that were put out to the shareholders and to the public while this Commission was sitting, and in view of Mr. Hooper's evidence as to the tariff rates that are still prevailing I think they are quite unfair and unsound --"is more

"than even our sound Balance Sheet position can be expected to stand without danger of grave impairment in a comparatively short time. We are, therefore, forced to consider proper steps to conserve the position of the Company until the situation facing us changes."

I suppose the change that is expected is higher tariffs.

"These may entail considerable curtailment of manufacturing operations at our various plants throughout the Province of Quebec, but such a tendency was undoubtedly foreseen by the Government in framing its tariff policy if it was expecting, by virtue of its recent reductions in the Textile Tariffs, to increase its revenue from Customs sources.

It must have anticipated that the lower rates of duty would be offset by increased importations of Textiles and realized that the inevitable result of larger imports would be for smaller quantities of such goods to be manufactured in Canada. Despite the inimical conditions under which the Textile Industry in Canada

that is what you say. That is in June, is it?

Mr. McNAMARA: Yes, my lord.

"The loss involved in producing goods on our former scale, a large proportion of which may now only be made at a loss, is a very serious matter. It is not only a loss to the shareholders and to the public while this Commission was sitting, and in view of Mr. Hope's evidence as to the tariff rates the same still prevail- ing I think they are quite certain and unassailable --" "It is not then even our second defence sheet position can be expected to stand without danger of grave injury. It is a comparatively short time. We are, therefore, forced to consider proper steps to conserve the position of the company until the situation changes."

I suppose the change that is expected in the tariff rates may entail considerable curtailment of manufacturing operations at our various plants throughout the Province of Quebec, but even so far as was undoubtedly foreseen by the Government in framing its tariff policy it was expected, by virtue of its recent reductions in the textile tariffs, to increase its revenue from Customs duties. It must have anticipated that the lower rates of duty would be offset by increased importations of foreign goods and realized that the inevitable result of lower tariffs would be to increase the revenue of the Government. Despite the initial to be manufactured in Canada. Despite the initial

"is carrying on at present, the prosperity of the Nation as constituted, and the industry is closely related to the same essentials"--

THE COMMISSIONER: There is something wrong there.

5 MR. MORJER: "Despite the inimical conditions under which the Textile Industry in Canada is carrying on at present, the prosperity of the Nation as constituted, and the industry"--

MR. GLASSCO: "And the industry"--

10 MR. GORDON: The punctuation is wrong.

MR. MORJER: Yes; I think there should be a comma after "industry".

"--and we feel confident your Company will come through what can only prove to be a temporary period of adversity."

15 Well, we will see what the temporary period of adversity is that they have come through. The fact is that evidence was given of the pressure at the Montmorency Mill since these lines were written whereby the men
20 were let off at seven o'clock in the morning and asked to return at twelve in order to complete the orders that were on hand, and the general statement was made in December that the company was able to
25 increase its wages on account of the increased volume of business in the last few months so that the pessimism expressed in this statement has not been experienced, but I cannot see how the statement could be made, and could be honestly made in the face of the protection that is still afforded to the industry, particularly
30 in regard to the United States. There is an insur-

"is carrying on its business, and industry is close
 relation as constituted, and the industry is close
 related to the same essentials"--

THE COMMISSIONER: What is the relation between the
 Mr. Gordon: The relation between the industry and the
 which the textile industry in Canada is carrying

on at present, the prosperity of the nation as
 constituted, and the industry"--

MR. GORDON: "and the industry"--

MR. GORDON: "and the industry"--

MR. GORDON: The proposition is wrong.

MR. GORDON: Yes; I think there should be a
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 of business in the last few months so that the position
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 that it will be forced to be made, because
 in regard to the United States. There is an industry

mountable tariff protection there yet, and yet entering into the United States Trade Agreement was going to have all this effect on the industry. But it is only characteristic of what had been said for the last 30 or 40 years. It is only another verse to the song that has been sung, sort of a swan song, that the industry is just on the verge of the abyss and going to fall in if anything happens to the tariff support that keeps it up. I say then at page 162--

" The above resume of the affairs of Dominion Textile Company Limited and its antecedents shows that between 1874 and 1934 the business of 17 cotton companies has been amalgamated in the business carried on by Dominion Textile Company Limited.

In addition to this, about the year 1929"-- now, that may be changed to "in the year 1930" --"Dominion Textile Company Limited had secured the controlling interest in its second largest competitor, The Montreal Cotton Company Limited.

In the process of amalgamation, mills have been closed in 10 different centres in Canada"-- and the location of these centres is rather important in regard to some things that I am going to say later in respect to the tariff burden, and where it bears most heavily; that is, the subsidy that is provided for the industry and who pays the subsidy and who benefits. In this Dominion we have nine provinces and the subsidy to this tariff protected industry is paid by the nine provinces, but there are only two provinces that really benefit by it so that you have a withdrawal of wealth, so to

entering into the United States Trade Agreement was
going to have all this effect on the industry. But
is only a mere statistic of what had been said for
least 20 or 40 years. It is only another version of
the song that has been sung, sort of a swan song,
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and going to fall in if anything happens to the tariff
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Textile Company Limited had assumed the control of
interest in its second largest competitor, The
Central Cotton Company Limited.
in the process of amalgamation, mills have
closed in 10 different centres in Canada" -- and
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the textile industry is paid by the nine provinces
and it is that you have a withdrawal of wealth, so that

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5 speak, from the seven other provinces and into the
other two, and the seven other provinces being
penalized because they get no return. They get the
privilege of paying their share of the subsidy but
get no return in the sense of any distribution of the
benefits among themselves. I intend to refer to it
somewhat in detail, but in respect to that subject
matter there is a very very excellent brief prepared
there was a very excellent brief prepared in 1931 by
10 the present minister of Labour who submitted it on
behalf of the Province of Nova Scotia to a Royal
Commission then investigating the affairs of the
Province of Nova Scotia and its relations to the
Dominion, and he puts it in exactly that way, that
15 the tariff protection is a subsidy and that the
Province of Nova Scotia received no benefit from it,
or very little. He gives the proportion of benefit
that is received from it in calculating it in an
economic way, and shows the net balance sheet loss
20 against the Province of Nova Scotia in respect to the
tariff, but I want to deal with that in some detail,
some of the submissions that were made by Mr. Rogers
to the Commission at that time, but your lordship
will see that the location -- for instance, two of
25 them were in Nova Scotia, the Halifax mill and Moncton
mill.

THE COMMISSIONER: Moncton is in New Brunswick.

MR. McRUER: When I say Nova Scotia I mean the
Maritime Provinces. The Windsor mill was Windsor,
30 Nova Scotia, was it?

...from the seven other provinces and into the
other two, and the seven other provinces being
penalized because they get no return. They get no
privilege of paying their share of the subsidy but
get no return in the sense of any distribution of
benefits among themselves. I intend to refer to it
somewhat in detail, but in respect to that subject
matter there is a very excellent brief prepared
there was a very excellent brief prepared in 1901
the present Minister of Labour who submitted it on
behalf of the Province of Nova Scotia to a Royal
Commission then investigating the affairs of the
Province of Nova Scotia and its relations to the
Dominion, and he puts it in exactly that way, that
the tariff protection is a subsidy and that the
Province of Nova Scotia receives no benefit from it
or very little. He gives the proportion of benefit
that is received from it in explaining it in an
economic way, and shows the net balance sheet loss
against the Province of Nova Scotia in respect to
tariff, but I want to deal with that in some detail
some of the examinations that were made by Mr. Rogers
to the Commission at that time, but your lordship
will see that the location -- for instance, two of
them were in Nova Scotia, the Halifax mill and one
mill.
THE COMMISSIONER: Now then is in New Brunswick.
MR. ROGERS: When I say Nova Scotia I mean the
Maritime Provinces. The Windsor mill was Windsor,
Nova Scotia, was it?

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MR. GORDON: I am sorry, sir. Yes, it was Windsor,
Nova Scotia.

MR. McRUER: So that three of them were in the
Maritime Provinces.

5 SECRETARY WHITELEY: What about St. John?

MR. McRUER: Is that St. John, Quebec, or New
Brunswick?

MR. GORDON: That was the Canadian Cotton Mill at
St. John, New Brunswick.

10 MR. McRUER: But you report the closing of a mill
at St. John.

MR. GORDON: I think you said you thought that was
a mistake yesterday.

15 MR. McRUER: I thought in the earlier part it was
a mistake, but here I am quite sure it was right. Well,
turn up the extract from the minutes, Mr. Walton.
That was not known as the Chambly mill, was it?

MR. BEAUREGARD: There was a mill at Chambly.

20 MR. GORDON: You have got Chambly there.

MR. McRUER: Oh yes, that is right. Well, subject
to that; we will check that up. Other plants, of
course, were enlarged in other centres. When I say
these mills are closed there undoubtedly would be
25 a movement towards enlarging other mills because the
object of closing the mills was to concentrate the
manufacture in certain centres. They say that
themselves in their records. On the other hand, the
concentration would expand the mills in Montreal and
30 Montmorency and so on.

" Plants have been enlarged and extended at the

MR. GORDON: I am sorry, sir. Yes, it was Windsor.
MR. GORDON: So that three of them were in the
MR. GORDON: That was the Canadian Cotton Mill at
St. John, New Brunswick.
MR. GORDON: I think you said you thought that was
a mistake yesterday.
MR. GORDON: I am quite sure it was right.
turn up the extracts from the minutes, Mr. Dalton.
that was not known as the Chemaly Mill, was it?
MR. GORDON: There was a mill at Chemaly.
MR. GORDON: You have got Chemaly there.
MR. DALTON: Oh yes, that is right. Well, and
to that; we will check that up. Other plants, of
course, were enlarged in other centres. When I say
movement towards enlarging other mills because the
object of closing the mills was to concentrate the
themselves in their records. On the other hand, the
consolidation would expand the mills in different
plants have been enlarged and expanded at

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"other centres in which mills have been operated by the Company.

The records of the antecedent companies to Dominion Textile Company Limited are necessarily incomplete. However, for the purpose of determining how the cotton industry has prospered in Canada since the introduction of a National policy of protection, it does not seem unfair to take the record of the Hudson Cotton Company Limited, Hochelaga Cotton Company Limited, and Dominion Cotton Mills Company Limited, as reflecting a cross-section of the industry from 1874 to 1905.

It cannot be unfair to select Dominion Cotton Mills Limited and its chain of antecedents, in view of the fact that the lowest price per share was paid for its stock on the amalgamation of Dominion Cotton Mills Company Limited" with the other cotton companies "and in view also of the fact that it was the largest unit entering the merger in 1905."

Now, I have already dealt with that summary of how those companies got along down to the organization of the Dominion Textile Company. We come to the summary of the prosperity of this group of companies as amalgamated in the Dominion Textile Company at page 166 of my brief.

Mr. Howson's summary, exhibit 917 (Page 9), headed 'Memo re Capital and Earnings, 1905 to 1936', shows that the business of the Company may be divided into three periods, namely, 1906 to 1922 inclusive, 1923 to 1928 inclusive, 1929 to

"other entities in which mills have been operated

by the company.

The records of the antecedent companies to

Canadian Mills Limited are necessarily

incomplete. However, for the purpose of determining

how the cotton industry has prospered in Canada

since the introduction of a National policy of

protection, it does not seem unfair to take the

records of the Hudson Cotton Company Limited,

Hochelaga Cotton Company Limited, and Dominion

Cotton Mills Company Limited, as representative

cross-section of the industry from 1874 to 1932.

It cannot be unfair to select Dominion Cotton

Mills Limited and its chain of antecedents, in

view of the fact that the lowest price per share was

paid for its stock on the amalgamation of Dominion

Cotton Mills Company Limited" with the other

companies "and in view also of the fact that it was

the largest and most successful company in 1932."

Now, I have already said that the company of

these companies was not alone in the industry in

the Dominion Mills Company. It was one of the

of the industry of this group of companies as can

be seen in the Dominion Mills Company as can be

of my brief.

" Mr. Howson's summary, Exhibit 317 (Page 9)

headed 'Memo re Capital and Earnings, 1902 to

1932', shows that the business of the company

in various years from 1902 to 1932 inclusive,

1932 inclusive, 1932 to 1932 inclusive, 1932 to

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"1936 inclusive."

I divide it into those three periods, my lord, because from 1906 to 1922 there was no new capital brought into the business. The original 500,000 shares that was subscribed by the original subscribers --

MR. GORDON: 50,000 shares.

MR. McRUER: That original \$500,000 that was subscribed by the original subscribers for common stock was the only common stock investment. Now, just before I deal with the return--

THE COMMISSIONER: Now, pardon me; you say you divide the story into those three periods. The first period you say is from 1906 to 1922 and is to be noted by the fact there was no new capital introduced during that time.

MR. McRUER: Yes.

THE COMMISSIONER: What about 1923 to 1928? What is the characteristic of that?

MR. McRUER: 1923 there was new capital because 25,000 shares were sold at \$100 a share. In 1929 there was a further issue of rights at \$75.00 a share. I will deal with that later on as to the exact amount, but I have forgotten how much was realized for that.

THE COMMISSIONER: There was further new capital.

MR. McRUER: Further new capital at that time.

MR. GORDON: 45,000 shares.

MR. McRUER: 45,000 shares at \$75.00 a share?

MR. GLASSCO: \$3,375,000.

MR. McRUER: \$3,375,000 brought in in 1929; is that correct?

was embraced by the original subscribers --

but I have forgotten how much was realized for the
will deal with that later on as to the exact amount
was a further issue of rights at \$70.00 a share.
15,000 shares were sold at \$100 a share. In 1939

MR. McFARLANE: \$2,375,000 bought in in 1922; 1
MR. GLASSCO: \$2,375,000.
MR. McFARLANE: 45,000 shares at \$75.00 a share?
MR. GORDON: 45,000 shares.

MR. GLASSCO: Yes.

MR. McRUER: Now, as to how they regarded this -- as to how the members of the syndicate regarded their investment in the common stock the letter that was sent out to the shareholders stated that the members of the syndicate would invest \$500,000 in the common stock and \$500,000 in the preferred stock. Now, there is an attempt made in my friend's brief to dress this up in a way by referring to minutes and that sort of thing, and the assets that were taken over, and so on, that would lead one to believe there was some other investment in this, but they said in their letter that they would invest -- the members of the syndicate would invest \$500,000 in preferred stock and \$500,000 in the common stock.

THE COMMISSIONER: They gave them all the common stock.

MR. McRUER: They gave them all the common stock.

THE COMMISSIONER: And all the preferred stock?

MR. McRUER: No, there was preferred stock issued in addition to that to take over the assets.

THE COMMISSIONER: How much?

MR. McRUER: For instance --

MR. GORDON: There were 19,240 shares issued altogether of which 14,000 were exchanged and 5,000--

MR. McRUER: 5,000 went to the members of the syndicate and 14,000 were issued to the shareholders of the old companies to acquire their shares. They were brought in on this basis. They got either bonds or preferred stock. They got no interest in the equity

MR. GRANT: Yes.

as to how the members of the syndicate regarded the investment in the common stock the letter that was sent out to the shareholders stated that the members of the syndicate would invest \$500,000 in the common stock and \$500,000 in the preferred stock. Now, this is an attempt made in my friend's trial to dress this up in a way by referring to shares and that sort of thing, and the assets that were taken over, and so on, that would lead one to believe there was some other investment in this, but they said in their letter that they would invest -- the members of the syndicate would invest \$500,000 in preferred stock and \$500,000 in the common stock.

THE COMMISSIONER: They gave them all the common stock.
MR. GRANT: They gave them all the common stock.
THE COMMISSIONER: And all the preferred stock?
MR. GRANT: No, there was preferred stock issued in addition to that to take over the assets.

MR. GRANT: For instance --
THE COMMISSIONER: Yes, that is correct.
MR. GRANT: \$5,000 went to the members of the syndicate and \$4,000 were issued to the shareholders of the old company to make up the total of \$9,000.
THE COMMISSIONER: They got no interest in the new stock.

in the property they owned. They were treated as debtors of the new company, and the equity in the property they owned was entirely left with the members of the syndicate, the interest in the equity, which was a very good thing.

THE COMMISSIONER: That had the effect of vesting all the assets in the new company.

MR. McRUER: Yes.

THE COMMISSIONER: I thought you said there was some thing else done about getting the assets.

MR. McRUER: No, no; when these securities were issued then the assets became all vested in the new company, and under the terms of the agreement with the Royal Trust the members of the syndicate agreed to subscribe \$500,000 for common stock and \$500,000 for preferred stock, but in the letter that was sent out to the shareholders no mention was made as to how much common stock they were going to get for the \$500,000. It was not mentioned to the shareholders of the other companies that the members of the syndicate would get \$5,000,000 worth of common stock. Now, Sir Herbert Holt's evidence is quite clear on the subject at page 6011 and following, and I think we may take it that Sir Herbert does not misunderstand things of this sort. Line 11--

"Q. Oh, no, I am asking when the scheme of the Syndicate was propounded why did not you propound a scheme that would give the shareholders of the old company an interest in the common stock, that is the ones besides yourself? A. I think

in the property they owned. They were treated as
debtors of the new company, and the equity in the
property they owned was entirely left with the members
of the syndicate, the interest in the equity, which
was a very good thing.

THE COMMISSIONER: That had the effect of vesting
all the assets in the new company.

MR. McLELLIN: I thought you said there was
something else done about getting the assets.

MR. McLELLIN: No, no; when these securities were
issued, the assets were left with the old

company, and under the terms of the agreement with
the syndicate, the assets were to be sold and the

proceeds were to be used to pay the debt of the
company, but in the letter that was sent out

to the shareholders no mention was made as to how
much common stock they were going to get for the

\$500,000. It was not mentioned to the shareholders
of the other companies that the members of the syn-

dicate would get \$5,000,000 worth of common stock.
Now, Sir Herbert Holt's evidence is quite clear on

subject at page 6011 and following, and I think we
take it that Sir Herbert does not misunderstand this

of this sort. Line 11--
"2. Oh, no, I am asking when the scheme of the

syndicate was proposed why did not you propose
a scheme that would give the shareholders of the

old company an interest in the common stock,
is the same as the old company?

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"any of them that wanted to come in we would have been glad to give them an interest.

Q. In the common stock? A. Yes. There was preferred and common stock.

Q. I am dealing with the common stock? A. But the Syndicate had to put up a million dollars, \$500,000.00 in preferred and \$500,000.00 in common.

Q. I am going to deal with that. We will get the letter that was sent to the shareholders of your Company. The Royal Trust Company produced here the other day a copy of a letter, circular letter, that was sent to the shareholders of the Colonial Bleaching & Printing Company. The letter is filed as Exhibit 331, and I read from page 3 of that letter, paragraph 4:

'The terms and provisions of the Trust Deed shall be subject to the approval of Mr. W.J. White, K.C.

The Bonds herein mentioned will be 6% 20 year Bonds, redeemable at any time at the new Company's option at a premium of 5%. The Preferred Stock will be preferred both as to capital and dividends, which dividends will be non-cumulative.

The Syndicate shall subscribe and pay for at par preferred shares in the new Company to an amount of \$500,000.00.

The Syndicate will also invest \$500,000.00 in the common stock of the new Company.'

You recollect this circular going out to the shareholders? A. Yes.

Q. I suppose you would be one that would approve of

"any of them that wanted to come in we would have
been glad to give them an interest.
A. Yes. There
was preferred and common stock.

A. I am familiar with the company. A. I am
the syndicate had to put up a million dollars,
\$500,000.00 in preferred and \$500,000.00 in common.
I am going to deal with that. We will get
the letter that was sent to the shareholders of
your company. The Royal Trust Company produced
here two other days a copy of a letter, circular
letter, that was sent to the shareholders of the
Colonial Banking & Printing Company. The letter
is filed as Exhibit 231, and I read from page 3
of that letter, paragraph 4:

The bonds herein mentioned will be 6% 30 year
bonds, redeemable at any time at the new company
option at a premium of 5%. The preferred stock
will be preferred both as to capital and dividend
which dividends will be non-cumulative.

The syndicate shall subscribe and pay for
per preferred shares in the new company to an
amount of \$500,000.00.

The syndicate will also invest \$500,000.00
the common stock of the new company.

You recollect this situation going out to the
A. Yes.
I suppose you would be one of the world's

"the form of the circular before it was sent out?

A. I suppose so.

Q. There is nothing said in this circular about what the Syndicate was going to get in common stock for the \$500,000.00 they invested? A. Might

have got a bad debt.

Q. I say, there is nothing said about the number of common shares the Syndicate was going to get for the \$500,000.00? A. No. When I say 'no',

I don't know.

Q. Well, I will give it to you to read over if you have any doubt about that? A. No, I

have no doubt.

Q. I have read the only paragraph I can find with reference to that. As a matter of fact, the

members of the Syndicate got all the common stock for the \$500,000.00, did they not? A. I think so.

Q. That is all that was issued at that time?

A. Yes.

Q. And the common stock that was issued was \$5,000,000.00 of common stock - that is correct?"

THE COMMISSIONER: What per value?

MR. McRUE: It was \$100.00.

Q. And the common stock that was issued was \$5,000,000.00 of common stock - that is correct?

A. Yes, sir.

Q. And that was issued to the members of the Syndicate? A. Yes.

Q. Your share in the Syndicate, by the way, was

the form of the circular before it was sent out?
A. I suppose so.
Q. There is another case in this country where
the syndicate was going to get the common stock
for the \$500,000.00, but they failed. A. Yes.
Q. I say, there is nothing said about the number
of common shares the syndicate was going to get for
the \$500,000.00? A. No, when I say 'no',
I don't know.

Q. Well, I will give it to you to read over if
you have any doubt about that? A. No, I
have no doubt.

Q. I have read the only paragraph I am finding with
reference to that. As a matter of fact, the
members of the syndicate got all the common stock
for the \$500,000.00, did they not? A. I think
so.

Q. That is all that was issued at that time?
A. Yes.
Q. And the common stock that was issued was
\$5,000,000.00 of common stock - that is correct?
A. Yes.

Q. And the common stock that was issued was
\$5,000,000.00 of common stock - that is correct?
A. Yes, sir.
Q. And that was turned to the members of the
syndicate? A. Yes.

Q. Your share in the syndicate, by the way, was

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"\$100,000.00?

A. I think so.

Q. That would be, of course, one-tenth of the total amount. \$1,000,000.00 formed the total Syndicate funds, and for the \$100,000.00 you received allotted to you, I see, according to the Minute Book, a meeting of the directors held on January 27th, 1905, you received 500 preferred shares and 5000 common shares?

A. I suppose so, I cannot recollect."

Now, we go back to page 166 to see what these investors got. During the period the Company paid interest on the bonds outstanding, interest on the preferred stock at 7% and dividends on the common stock. On the \$500,000 invested in common stock by the members of the syndicate, dividends were paid as follows: 1908 to 1912 inclusive, \$250,000 or 50% per annum. 1913, \$275,000, and that was one of the years --

THE COMMISSIONER: Per annum.

MR. McRUER: Yes, per annum, my lord -- one of the years that we had complaints.

THE COMMISSIONER: That was just one year.

MR. McRUER: 1914 to 1917 inclusive \$300,000 per annum; 1918, \$350,000 per annum; 1919 to 1920 \$400,000 per annum; 1921 \$500,000 per annum; 1922, \$600,000 per annum, and over that period we had several complaints about the insufficiency of the tariff protection., and my friend, Mr. Heward, in his brief boldly states this company has not made sufficient profits so that I shall refer to that. I think he is assuming that one of the best methods is to take the aggressive rather than

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of the would be, of course, one-tenth of the total amount. \$1,000,000.00 formed the total

syndicate funds, and for the \$100,000.00 you

allotted to you, I see, according to the minutes

Book, a meeting of the directors held on January

27th, 1905, you resolved 500 preferred shares and

5000 common shares? A. I suppose so, I

cannot recall."

Now, we go back to page 156 to see what these invest

got. During the period the company paid interest

on the bonds outstanding, interest on the preferred

stock at 7% and dividends on the common stock. On

\$500,000 invested in common stock by the members of

the syndicate, dividends were paid as follows: 1905

1912 inclusive, \$250,000 or 50¢ per annum. 1913

\$275,000, and that was one of the years --

THE COMMISSIONER: Per annum.

MR. BRYDIE: Yes, per annum, my lord -- one of the

years that we had complaints.

THE COMMISSIONER: That was just one year.

MR. BRYDIE: 1914 to 1917 inclusive \$300,000 per

annum; 1918, \$350,000 per annum; 1919 to 1920 \$400,

per annum; 1921 \$500,000 per annum; 1922, \$500,000

annum, and over that period we had no other complaints.

About the 15th of January, 1922, we were notified by

the directors, in New York, that they were going to

convert the 500 preferred shares into 5000 common

shares. I think he is assuming that one

the best method is to take the aggressive rather

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be on the defensive. During the first 17 years of operation a total of \$4,975,000 was paid on this investment of \$500,000.

" In 1923 the original common shareholders were given the privilege of purchasing one share of new stock for every two shares that they held at par. This brought into the treasury of the Company \$2,500,000 more capital. The total share capital was now \$7,500,000 and, upon the incorporation of the new Company, the shareholders were given three shares of common stock in the new Company, no par value, for every one share held in the old Company, bringing the outstanding shares up to 225,000."

That should not be dollars in my brief, my lord. The dollar sign should not be there.

THE COMMISSIONER: That should be shares.

MR. McRUER: Yes.

" From 1923 to 1925 a dividend rate was maintained sufficient to pay on the original common stock \$600,000 per annum". That is, 150% is the dividend they got along in those years.

MR. HEWARD: How do you get 150% out of that?

MR. McRUER: It is 150%, rather. We get up to 150% in the next group.

"From 1926 to 1928, inclusive, a dividend rate was maintained at a rate sufficient to pay on the original issue of common stock \$750,000 per annum." That is now really 150% in those years of low tariff when they were complaining of the insufficiency of the protection they had against the ravages of outside

Investment of \$500,000.

In 1928 the original common shareholders were given the privilege of purchasing one share of stock for every two shares that they held at par. This brought into the treasury of the Company \$2,500,000 more capital. The total share capital was now \$7,300,000 and, upon the incorporation of the new Company, the shareholders were given 14,600 shares of common stock in the new Company, as a value, for every one share held in the old Company, bringing the outstanding shares up to 292,000. The dollar sign should not be there.

THE COMPANY'S POLICY: That should be stated.

From 1928 to 1935 a dividend to be was maintained sufficient to pay on the original common stock \$500,000 per annum. That in 1935 a dividend they got along in those years.

MR. MOHRER: It is 1935, rather. We got up to in the next group.

From 1935 to 1938, inclusive, a dividend to be was maintained at a rate sufficient to pay on the original common stock \$500,000 per annum. That in 1938 a dividend they got along in those years.

of the
competition. The total/dividends paid during that
period, that is, during the period from 1923 to 1928
inclusive, was \$4,050,000 on the original investment
of \$500,000. When we appreciate the fact that
5 really this is a part of the subsidy to this industry
it looks as though they had been generously subsidized,
and I work it out in that way later on, and we will
see the whole picture. In 1929--

THE COMMISSIONER: Do you want to take a few minutes?

10 MR. McHUR: Yes.

-- The Commission adjourned for a short recess.

(page 14460 follows)

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14460

-- On resuming at 12 P.M.

MR. McRUER: To deal, my lord, with the period from 1929 on when there was a further issue of 45,000 shares of common stock at 75 dollars a share, which brought an amount of \$3,375,000 into the treasury. These shares were issued in the proportion of one new share to each holder of five shares of common stock, and for the years 1929, 1930, 1931 and 1932 dividends were paid sufficient to pay on the original investment of \$500,000, \$750,000 per annum. So that we have just at the time that this company received at the hands of the Government the increased tariffs on its request, on request of the cotton industry because that is on record that they wrote and sent in their schedule and said, "We should have this, " - and when they say that the minimum - just as I read a few moments ago what Sir Charles Gordon had said in 1936 - "That the minimum we can get along on is what was granted us in 1930," - they were saying before that at the rate of 150% per annum on the shares issued for the original \$500,000 and they continued to pay at that rate until 1932 when there was quite a blare of trumpets made in connection with the reduction of the dividends on the common stock and it was emphasized that the reduction of the dividends on the common stock had been greater in proportion than the reduction in the wages, &c., but we find that the reduction was from \$750,000 per annum to \$712,500

-- On Tuesday at 12 P.M.

MR. MONTGOMERY: To deal, my lord, with the period

from 1929 on when there was a further issue of

45,000 shares of common stock at 75 dollars a share,

which brought an amount of \$3,375,000 into the treasury

of the company and which was used for the purpose of

paying to each holder of five shares of common stock

and for the years 1929, 1930, 1931 and 1932 dividends

were paid sufficient to pay on the original investment

of \$500,000, \$750,000 per annum. So that we have

just at the time that this company received at the

hands of the Government the increased tariffs on iron

request, on request of the cotton industry because

that is on record that they wrote and sent to their

executive and said, "We should have this," -- and when

they say that the minimum -- just as I read a few

moments ago what Sir Charles Gordon had said in 1928

that the minimum we can get along on is what was

at the rate of 1500 per annum on the shares issued

for the original \$500,000 and they continued to pay

at that rate until 1932 when there was paid a dividend

of 100 cents made in connection with the reduction

of the dividends on the common stock and it was

stated that the reduction of the dividends on the

common stock had been greater in proportion than the

reduction in the dividends on the preferred stock

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per annum in respect to the shares that were issued on this original investment. So that if they still held their original investment, after the reduction, they would be drawing \$712,500 per annum on the investment of \$500,000, so that the reduction was not too bad after all.

MR. HEWARD: Mr. McRuer, you said when you referred to the minimum protection, the statement in regard to the minimum protection, you said that was made in 1930.

MR. McRUER: No, I said made in 1936.

MR. HEWARD: You said at the time they were alleged to be getting \$750,000 per annum on the \$500,000 investment, that was the time they were making their requests for higher tariffs, and stating it was the minimum protection.

MR. McRUER: No, I think you misunderstood me. Perhaps I said it rather quickly. What I said was that that was at the time that they were making their requests for the higher tariffs and that Sir Charles Gordon said in 1936 that that rate was the minimum on which they could get along.

THE COMMISSIONER: At the rate of 1930?

MR. McRUER: Yes, 1930.

MR. HEWARD: You said that in 1935 ---

MR. McRUER: No, 1936. However, does not make much difference.

MR. HEWARD: As to the minimum protection ---

(144)

an annual in respect to the shares that were issued
so that in they
held their original investment, after the reduction
they would be drawing \$712,500 per annum on the invest-
ment of \$250,000, so that the reduction was not too
after all.

MR. HERBARD: Mr. McNamee, you said when you referred
to the minimum protection, the statement in regard to
no minimum protection, you said that was made in 1938.
MR. McNamee: No, I said made in 1936.

MR. HERBARD: You said at the time they were allowed
to be getting \$750,000 per annum on the \$250,000
investment, that was the time they were making their
requests for higher tariffs, and stating it was the
minimum protection.

MR. McNamee: I said that was the time they were making their
requests for higher tariffs, and stating it was the
minimum protection. I said it rather quickly.
That that was at the time that they were making their
requests for the higher tariffs and that the minimum
Gordon said in 1936 that that rate was the minimum
on which they could get along.

THE COMMISSIONER: At the rate of 1936?
MR. McNamee: Yes, 1936.
MR. HERBARD: You said that in 1936 ---
MR. McNamee: No, 1936. However, does not make
any difference.
MR. McNamee: As to the minimum protection ---

THE COMMISSIONER: What page?

MR. HEWARD: Page 160 of Mr. McRuer's Brief.

MR. McRUER: No, but you go on to see what he said
in 1936.

THE COMMISSIONER: What page?

MR. McRUER: At page 161.

THE COMMISSIONER: That is where he said:

"We are, therefore, forced to consider proper steps
to conserve the position of the Company until the
situation facing us changes." You suggested awhile ago
that that meant going back to the Tariff rate of 1930.

MR. McRUER: Yes, my lord. It was on account
of the reduction that had been made in the tariff
rate of 1930. They complained in 1935 and said
the rate in 1930 was the minimum they could get along
with, and then the reductions made in 1936 by the
Government in power then and then he said:

We are carrying on under this condition until some-
thing can be done about it.

Then in 1934 dividends were sufficient to pay
on the original investment \$600,000 per annum and
then they were restored completely in 1936 to the
basis of \$750,000 per annum in respect to the shares
issued for the original investment of \$500,000.

So that we have over these depreciation years from
1929 to 1936 - not all depreciation years, 1929
cannot be classed exactly as a depreciation year,

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THE COMMISSIONER: What page?

MR. MORRIS: Page 180 of Mr. Morris's Brief.

MR. MORRIS: No, but you go on to see what he says

in 1936.

THE COMMISSIONER: What page?

MR. MORRIS: At page 181.

THE COMMISSIONER: That is where he said:

"We are, therefore, forced to consider proper steps

to conserve the position of the company until the

situation facing us changes." You suggested awhile

that that meant going back to the tariff rate of 1936

MR. MORRIS: Yes, my lord. It was an account

of the reduction that had been made in the tariff

rate of 1936. They complained in 1936 and said

the rate in 1930 was the minimum they could get along

with, and then the reductions made in 1936 by the

Government in power then and then he said:

we are carrying on under this condition until some-

thing can be done about it.

Then in 1934 dividends were sufficient to pay

on the original investment \$800,000 per annum and

then they were restored completely in 1938 to the

basis of \$750,000 per annum in respect to the shares

issued for the original investment of \$500,000.

So that we have over these depreciation years from

1939 to 1936 - not all depreciation years, 1939

and the depreciation years, 1939

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probably not 1935 altogether - but over these years at any rate from 1929 to 1936, \$5,812,500 paid on the stock that was issued for the original investment of \$500,000. So that this all becomes extremely important when I go back to deal again with the principles of what can a company expect from the consumers, and also when my friend Mr. Beauregard deals with the question of what has the companies done in respect to their workmen.

The total dividends paid on the stock issued on the original investment by members of the syndicate from 1905, between the years 1906 and 1936, inclusive, amounted to \$14,837,500 or an average annual rate of 98.4 % per annum. It may be noted here that during the depreciation years from 1930 to 1936, \$4,312,500 was paid in respect to the shares issued for the original \$500,000. It may also be noted that the dividends paid from 1923 to 1936 on subsequent issues of stock, ^{which} ~~has~~ netted the company \$5,875,000, amounted to \$6,676,456. So that we see too how the original investors have shared as compared with how those who put in their money at this later stage. But had this company - and I deal with this specifically in a statement - had this company paid anything in the nature of a reasonable return on the \$500,000 invested it would never have been necessary for it to get in any additional capital at these times. I do not know why it was even necessary

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probably not 1933 altogether - but over these years
at any rate from 1929 to 1933, \$5,812,500 paid on
the stock that was issued for the original investment
of \$500,000. So that this all becomes extremely
important when I go back to deal again with the
principles of what can a company expect from the
consumers, and also when my friend Mr. Rosenberg
deals with the question of what was the companies
done in respect to their workmen.
The total dividends paid on the stock issued on
the original investment by members of the syndicate
from 1905, between the years 1905 and 1933, inclusive
amounted to \$14,837,500 or an average annual rate
of 38.4 % per annum. It may be noted here that
during the depreciation years from 1930 to 1933,
\$4,312,500 was paid in respect to the shares issued
for the original \$500,000. It may also be noted
that the dividends paid from 1933 to 1938 on shares
issued at \$100,000 per share, \$5,270,000,
amounted to \$5,570,458. So that we see too how
the original investors have shared as compared with
new those who put in their money at this later stage.
But had this company - and I deal with this speci-
fically in a statement - had this company paid any-
thing in the nature of a dividend between 1933 and 1938
\$500,000 invested it would have had some interest
for it to get in any additional capital at these

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5 but I have a statement made up to show just the
position they would have been had they paid 20%
dividends on the \$500,000. I think I have been
extremely liberal in making that up but I am making
it up - what one might say is reasonable and then
double it. When you get 20% per annum for 30
years they cannot say I have not been generous to them
in that respect but I deal with that in detail in a
10 moment. It is said on behalf of the company
that when wages were decreased by 10% during the
years ended March 31st the dividend rate on the common
stock was decreased by 20%. A decrease of 10%
in wages would amount to a saving to the company in
15 1934 of about \$434,000, but in that year, not with-
standing the decrease in the rate of the common stock
dividends, \$600,000 was paid in dividends on the
stock that was issued for original investment of
20 \$500,000 by the members of the Syndicate.

25 The dividend record of this Company does not dis-
close the whole story of the profits earned on the
common shares issued to the original members of the
Syndicate.

30 In addition to the earnings that have been paid
out in dividends, the common stock shareholders
have a very large equity in the company in the nature
of investment in land, buildings, machinery, current
assets consisting of cash, Accounts Receivable,
Inventory and outside investments. This value

but I have a statement made up to show that the
position they would have been had they paid 80%
dividends on the \$500,000. I think I have been
extremely liberal in making that up but I am making
it up - that one might say is reasonable and then
double it. Then you get 20% per annum for 25
years they cannot say I have not been generous to the
company. It is said on behalf of the company
that when wages were decreased by 10% during the
years ended March 31st the dividend rate on the com-
mon stock was decreased by 20%. A decrease of 10%
in wages would amount to a saving to the company in
1904 of about \$400,000, but in that year, not with-
standing the decrease in the rate of the common stock
dividend, \$500,000 was paid in dividends on the
common stock. The dividend record of this company goes not dis-
close the whole story of the profits earned on the
common shares issued to the original members of the
company. In addition to the earnings that have been paid

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has been built up out of profits made on the sale of the Company's products in the Dominion of Canada, together with the cash investment made by shareholders from time to time, as heretofore set out.

5 Now, I think I am absolutely sound and clear, in addition to these dividends which they paid, which amounted on the original investment to 98.4% on the capital invested, they have built up out of additional profits a large capital investment which I will analyse
10 in a moment.

THE COMMISSIONER: You mean 98.4% per annum?

MR. McRUER: Yes.

15 "The question of determining the actual value of these assets may be approached in two ways:

1. By what is shown in the Company's financial records, after all appropriations have been made for repairs, betterments and depreciation.

20 2. By a calculation made taking into account the profits as shown in the financial record of the company and the appraised value of the Company's plant."

25 Mr. Whiteley, have you got that appraisal that was sent in? I want to look at it.

30 "Mr. Glassco, the Accountant, called on behalf of the Company, does not agree that there has been over depreciation of the company's fixed assets, and that the earnings of the company

... from time to time, as heretofore set out.
... together with the cash investment made by shareholders
... in the company's business is the business of the company.
... Now, I think I am absolutely sound and clear,
... in addition to these dividends which they paid, which
... amounted on the original investment to 25.4% on the
... capital invested, they have built up out of additional
... profits a large capital investment which I will call
... in a moment.

THE CHAIRMAN: You mean 25.4% per annum?

"The question of determining the actual
value of these assets may be approached in two
ways:

1. By what is shown in the Company's financial
records, after all appropriations have been
made for repairs, betterments and depreciation.
2. By a calculation made taking into account the
profits as shown in the financial records of the
company and the appraised value of the Company's
assets.

Mr. Wiseley, have you got that appraised last year
sent in? I want to look at it.

"Mr. Glasco, the accountant, called on behalf
of the company, and said that the appraised value of the
assets was 100,000."

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can be determined by taking the appraised value of the Company's property.

I propose, first, to deal with the common stock equity, arrived at from the financial record of the company, and to determine the total earnings, giving the company the benefit of all allowances that they have taken in their books, and secondly, to deal with the earnings of the Company on the basis of the apparent profits, by means of calculations based on the appraised value of the assets taken in 1936."

That is, the two ways: One, just what the company's financial records show and taking into account inventory reserve that we have shown in this inquiry, which is not shown on their financial record. Two, deal with it on the basis of the appraisal of the plant, and working back.

THE COMMISSIONER: What appraisal do you refer to?

MR. McRUER: The insurance appraisal, my lord, that was made in the year 1936, and Mr. Gordon says that he would send in the insurance appraisal so that we might look at it during the course of his evidence, and we have it, and I am going to deal with it when I come to that branch.

"1. The Financial Statement"

THE COMMISSIONER: When was that insurance appraisal made?

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can be determined by taking the appraised value
of the Company's property.

I propose, first, to deal with the common
stock equity, arrived at from the financial
record of the company, and to determine the
total earnings, giving the company the benefit
of all allowances that they have taken in their
books, and secondly, to deal with the earnings
of the Company on the basis of the statement
profits, by means of calculations based on the
appraised value of the assets taken in 1938.

That is, the two ways: One, just what the company's
financial records show and taking into account losses
reserve that we have shown in this industry, which is
not shown on their financial record. Two, deal
with it on the basis of the appraisal of the plant,
and working back.

THE COMMISSIONER: What appraisal do you refer to?
MR. MONTGOMERY: The insurance appraisal, my lord,
that was made in the year 1936, and Mr. Gordon says
that he would send in the insurance appraisal so that
we might look at it during the course of his evidence.
We have it, and I am going to deal with it when
I come to that branch.

"1. The Financial Statement...."
THE COMMISSIONER: When was that insurance appraisal

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MR. McRUER: In 1936, my lord.

"1. The Financial Statements of the Company
show the common stock equity of the Company
to be as follows:

Book value of common shares
outstanding, \$18,375,000.00

Surplus credited to Profit
and Loss Account.
(Exhibit 933 -
Annual Report for 1936) - 5,393,422.00

Reserves ---"

This is reserve against raw cotton only.

"Reserves (Exhibit 933)
(Reserve against Raw Cotton
only included) 2,179,473.00

Inventory Reserve (Exhibit 947) 1,360,096.00"
a total of -

Or a total of - those are the total assets according
to their book - a total of \$27,307,991.00.

MR. HEWARD: Mr. Mcruer? I think there is a mis-
take in the statement, "Reserve against raw cotton
only included." That includes the reserve for bad
debts, investments reserve.

MR. McRUER: Well, it is ambiguous; you are quite
right. Those are the reserves but as in respect to
inventory the only reserve that is included under that
heading is the one against raw cotton.

THE COMMISSIONER: It is the only one you take
out of the inventory.

MR. McRUER: It is the only one we take out of
the inventory and it is not all cotton, raw cotton

reserve. My friend Mr. Heward is quiteright.

MR. HEWARD: It should read inventory against raw cotton as the inventory reserve.

MR. McRUER: Just strike out the word "only".

And then we deal with the Inventory Reserve exclusive of raw cotton in the next item. That brings us to the figure, according to their books when we include these reserves, fo \$27,307,991.

Now then, to apportion that to the shares that were issued to the original investors of the \$500,000.

"The interest of the holders of the original shares issued for the \$500,000 investment subscribed by the original members of the Syndicate would amount to \$15,171,105.

The net result is that the \$500,000 invested by the subscribers to the Syndicate has appreciated in value by \$14,671,105.00 since the inception of the company, and paid to the holders of the stock \$14,837,500.00...."

Or it shows a total of about, in round figures, \$29,000,000 return in 30 years on the \$500,000 that is originally invested. Now, that is from their own books as the records show and without the additional calculation and it really almost seems shameful for me to say - well, that is not all you got. You got more than that. And go on and add about another fifteen or sixteen million dollars to it.

Well, it would probably run about another \$12,000,000. However, I am going on to show as nearly as I can what the true picture is and for me I have no anxiety but to try and show exactly what the investor got for the money that he put up. It is then for your lordship to consider it in relation to all those other aspects, the quantum of tariff protection they had throughout all this time when the money was being earned, the wages they paid and what the consumer ought to be called upon to pay in the way of subsidies to this industry in the future,

"It is claimed on behalf of the Company that a portion of the increased value of the plant may be due to the increase in the cost of replacement values, but, assuming this to be so, the position the shareholders of the company are in to-day is this. While continually complaining over a period of years of insufficient tariff protection, and while making strong representations to the Government in 1930 that tariff protection had been insufficient, and, on the strength of these representations securing further tariff protection, the original investment of \$500,000 made in 1905 has yielded a return of \$14,837,500 in dividends and to-day has, according to the company's records, an additional present value of \$14,671,105. This is after charging off

Well, it would probably run about another \$12,000,000.
 However, I am going on to show as nearly as I can
 what the true picture is and for me I have no anxiety
 but to try and show exactly what the investor got
 for the money that he put up. It is then for you
 lordship to consider it in relation to all those
 things which, the investor of 1905 would have
 had throughout all this time when the money was being
 earned, the wages they paid and what the consumer
 ought to be called upon to pay in the way of subsidies
 to this industry in the future.
 "It is claimed on behalf of the company that
 a portion of the increased value of the plant
 may be due to the increase in the cost of
 replacement values, but, assuming this to be
 so, the position the shareholders of the
 company are in to-day is this. While con-
 tinually complaining over a period of years
 of insufficient tariff protection, and while
 making strong representations to the Government
 in 1930 that tariff protection had been in-
 sufficient, and, on the strength of these
 representations, the original investment of \$500,000
 made in 1905 has yielded a return of \$14,000,000
 in dividends and to-day has, according to the
 company's statement, an additional \$1,000,000 in

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to profits \$22,943,471 for depreciation, and
\$12,492,186.92 to equipment and repairs."

So that in addition to these profits the consumer
has looked after the depreciation to that extent,
over \$22,000,000, nearly \$23,000,000 and the repairs
and equipment to \$12,500,000 in round figures.

Now, we come to consider it in another way and
that is, the profits of the company based on the
calculations of appraised value of the company's plant
in 1936.

"where the Company has charged out of profits
large sums of money annually to repairs and
betterments, and at the same time written off
out of profits general sums of money for
depreciation,"

"General" should be "generous".

"And at the same time written off out of profits
generous sums of money for depreciation, the
amount written off to depreciation in excess
of the amount required to take care of reasonable
wear and tear (not provided for out of earnings)
and obsolescence, amounts to a secret reserve
of profits."

THE COMMISSIONER: You say the amount written off in
excess of the amount required. You are assuming
there is such a thing?

MR. McRUER: Yes. If there is an amount written
off for depreciation and an amount written off for

to profits \$22,943,471 for depreciation, and

\$12,422,122 to equipment and repairs."

So that in addition to these profits the company

has looked after the depreciation to that extent,

over \$22,000,000, nearly \$22,000,000 and the repairs

and equipment to \$12,500,000 in round figures."

Now, we come to consider it in another way and

that is, the profits of the company based on the

calculations of assigned value of the company's plant

in 1936.

"where the company has charged out of profits

large sums of money annually to repairs and

improvements, and at the same time written off

out of profits a large sum of money for

depreciation."

"The company's profits for 1936 were

"and at the same time written off out of profits

amounts of money for depreciation, and

amount written off to depreciation in excess

of the amount required to take care of replacement

wear and tear (not provided for out of earnings

and obsolescence, amounts to a secret reserve

of profits."

THE COMMISSIONER: You say the amount written off in

excess of the amount required. You are assuming

there is some surplus

and surplus. Yes. It is not a secret reserve

but the depreciation and the amount written off for

obsolescence and charges for repairs, &c., and you come to the end of the time and see on the one hand that the plant has an appraised value, there it is. There is the value of we will say \$21,000,000 and it is carried on their books at \$4,000,000 after it has been depreciated down, then have they a secret reserve of profits in the absence of increment in replacement values?

MR. HEWARD: Carried on our books at \$18,000,000.

MR. McRUER: No. When we come to the depreciated value of the plant the difference is \$17,000,000.

MR. HEWARD: Not carried on our books at \$4,000,000.

MR. McRUER: No, carried on your books at the depreciated value - I will come to it later - it works out, difference \$17,000,000. Now, "in order to determine what this reserve (if any) of profit is, it is necessary; firstly, to find the present value of the plant; secondly, whether there has been an accretion in value or depreciation of values since the cost of the plant was charged in the company's records; and, thirdly, how much has been set up for depreciation."

Now, you take those three factors: First, what is to-day's value of the plant; second, has there been an accretion or depreciation in value since it was charged into the books at these prices; and, third, what has been charged for depreciation?

obsolescence and charges for repairs, etc., and you come to the end of the time and see on the one hand that the plant has an appraised value, there it is. There is the value of we will say \$21,000,000 and it is carried on their books at \$4,000,000 after it has been depreciated down, then have they a secret reserve of profits in the absence of income in replacement values?

MR. NEWARD: Carried on our books at \$18,000,000. MR. NEWARD: No. When we come to the de-preciated value of the plant the difference is \$17,000,000.

MR. NEWARD: Not carried on our books at \$4,000,000. MR. NEWARD: No, carried on your books at the depreciated value - I will come to it later - it to determine what this reserve (if any) of profit is, it is necessary; firstly, to find the present value of the plant; secondly, whether there has been an accretion in value or depreciation of value; thirdly, the test of the plant and charges in the company's records; and, thirdly, how much has been set up for depreciation."

Now, you have three factors: first, that is to say, the value of the plant; second, that there has been an accretion or depreciation in value; and, third, the charges in the records; and, it was charged in the records at \$4,000,000; and

And when you get that the difference in the depreciated value and the present-day value, less any accretion in value, will amount to the amount of secret reserve of profits.

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"In 1936 the Company had an appraisal made of its plants for insurance purposes. The appraisal is stated to be: \$20,000,000 exclusive of lands, sub-structures and excavations.

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Including lands and sub-structures \$22,183,633." Now, this in my Brief may be confusing - the appraisal does not touch the lands and sub-structures. Or estimated value, adding value of lands and sub-structures, it would amount to \$22,000,000.

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MR. HEWARD: You say adding the estimated value?

MR. McRUER: It should not be "including," it should be "adding".

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THE COMMISSIONER: The appraisal would only apply to the insurable property.

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MR. McRUER: Yes, my lord. Mr. Howson made an estimate of land and sub-structures - I think it was very conservative and has not been challenged in any sense, and brings it to that figure. Now, as to what sort of appraisal this was ---

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THE COMMISSIONER: I do not suppose that Mr. Heward is willing now that this appraisal is the one that should be acted on.

MR. HEWARD: No, we dealt with the comparative values of the two appraisals 1920 and 1936, and we

and when you get that the difference in the de-
bed value and the present-day value, less any nee-
in value, will amount to the amount of asset reas-

"In 1958 the Company had an appraisal made of
its plans for insurance purposes. The
appraisal is stated to be: \$20,000,000 exclusi-
of lands, sub-structures and excavations.

Including lands and sub-structures \$22,100,000
Now, this in my Brief may be confusing - the figure
does not touch the lands and sub-structures.

the valuation which, being taken as - I think, but I
statement, it would amount to \$22,100,000.

MR. HENARD: You say adding the estimated value

MR. McFARLANE: It should not be "including."

it should be "adding."

the estimated value, the estimated value will be

to the insurable property.

MR. HENARD: Yes, as I said, it would be \$22,100,000

estimate of land and sub-structures - I think it is

very conservative and has not been challenged in a

figure, and brings it to that figure. Now, as to

that part of the statement that is -

THE COMMISSIONER: I do not suppose that Mr.

statement is correct and that this would be the

that would be correct.

MR. HENARD: No, we dealt with the comparative

statement of the two estimates 1958 and 1964, and

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do not admit that this is of equivalent value to the 1920 appraisal.

THE COMMISSIONER: You do not admit it is the proper present value for one to act on.

MR. HEWARD: We do not admit that it can be properly used in the way it has been here.

THE COMMISSIONER: And your brief deals with that?

MR. HEWARD: Yes, my lord, my brief deals with that.

MR. McRuer: On this point I think I can say frankly that the Company have not sought to assist us in any way in showing us what the actual value of the plant was to-day. They take the records - there you are. They discussed up to 1921 the appraisal that was made then and Mr. Glassco gives evidence about that but he cannot consider anything after that as to whether there has been ---

MR. HEWARD: I do not think my friend intended to be unfair there when he said we have not sought to assist him. We have given him everything we had.

MR. McRuer: I know but with the exception of this - that it seems to me you could tell us what your plants are worth to-day without saying that they are not worth that insurable value, they are not worth the value put on them in the insurance appraisal or we would say you must not take that. Mr. Gordon would not say they are not worth it and has not said it because he would be probably in the embarrassing position of having to swallow

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THE COMMISSIONER: You do not admit it is the

proper present value for one to act on.

MR. HAWARD: We do not admit that it was for

property used in the way it has been here.

THE COMMISSIONER: And your brief deals with the

MR. HAWARD: Yes, my lord, my brief deals with

MR. HAWARD: On this point I think I can say I

if that the company have not sought to realize on it

any way in reaching as what the present value of the

plant was to-day. They took a decision - which

you are. They discussed up to 1921 the appraisal

that was made then and Mr. Howard gives evidence

about that but he cannot consider anything other than

as to whether there has been ---

MR. HAWARD: I do not think my friend intended

to be unfair there when he said we have not sought

to realize him. We have given him everything we had

MR. HAWARD: I know but with the exception of

that - and I want to say that I am not going to

that I want to say that I am not going to

are not worth that insensible value, they are not

worth the value put on them in the statement

appraisal or we would say you must not take that

we would not say that we are not going to

that we are not going to say that we are not going to

the statement is not going to say that we are not going to

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his words later on.

THE COMMISSIONER: If they had a fire.

5 MR. McRUER: And it is wise not to say it. Mr. Glasco would not say it. I put to Mr. Glasco - if you were engaged in an arbitration in which the Government was seeking to expropriate this plant would you say this was worth the amount set out in the insurance appraisal? He would not say he would not,
10 Now, in the absence of them coming and saying - no, we think they are worth less. Then surely when we take this appraisal - and I am going to read for a moment exactly how it is done. It is no rule of thumb thing. This thing took months to prepare.
15 It is not any snap judgment on the value.

THE COMMISSIONER: Who paid for the appraisal?

MR. GORDON: Fire Insurance Company paid for it, it is part of their service.

20 MR. McRUER: This is done machine after machine, item after item, books of it. It is no small thing. I have to say this to my friend, Mr. Gordon, - and I just repeat what an insurance man said to me one day
25 when he met me on the street - he said: these people are very anxious that everything we buy shall be secured from Canada and compel us to buy from them but when they went to buy their insurance they go to the factory Mutuals in the United States, which is
30 a company that don't do business here at all except

THE COMMISSIONER: If they had a fire,
MR. MONTGOMERY: And it is wise not to say it.
Witness would not say it. I put to Mr. Glasgow -
if you were engaged in an arbitration in which the
Government was seeking to expropriate this plant would
you say this was worth the amount set out in the
insurance appraisal? He would not say he would not
say, in the absence of them coming and saying -
no, we think they are worth less. Then surely
when we take this appraisal - and I am going to read
for a moment exactly how it is done. It is no rule
of thumb thing. This thing took months to prepare.
It is not any snap judgment on the value.
THE COMMISSIONER: Who paid for the appraisal?
MR. MONTGOMERY: The insurance company paid for it.
It is part of their service.
MR. MONTGOMERY: This is done machine after machine,
item after item, books of it. It is no small thing.
I have to say this to my friend, Mr. Gordon, - and I
just repeat what an insurance man said to me one day
when he met me on the street - he said: these people
they say nothing but what is true - they will
secured from Canada and compel us to pay from them
and when they want to pay their insurance they go to
the factory owners in the United States, which is
a company that don't do business here at all except

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under license. They import all their insurance
because it is lowest priced insurance.

5 MR. GORDON: We might say we have always dealt
with them and could not get that insurance any place
else when we started.

THE COMMISSIONER: We will adjourn now until
2.30 P.M.

10 -- The Commission adjourned at 12.30 P.M. to resume
at 2.30 P.M.

15 The Commission adjourned at 12.30 P.M. to resume
at 2.30 P.M.

The Commission adjourned at 12.30 P.M. to resume
at 2.30 P.M.

The Commission adjourned at 12.30 P.M. to resume
at 2.30 P.M.

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at 2.30 P.M.

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at 2.30 P.M.

The Commission adjourned at 12.30 P.M. to resume
at 2.30 P.M.

The Commission adjourned at 12.30 P.M. to resume
at 2.30 P.M.

30 The Commission adjourned at 12.30 P.M. to resume
at 2.30 P.M.

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AFTERNOON SESSION

The commission resumed at 2.30 o'clock.

ARGUMENT BY Mr. McRUER(resumed)

5 Mr. McRUER: I was dealing with the question of
insurance appraisal. Some effort was made more or
less to belittle it and to suggest that we did not
have it before us and therefore it was not an authen-
tic appraisal. The whole appraisal has now been
sent in. It consists of nine volumes and is stated
10 to have been prepared by the appraisal division of
the inspection department of the Associated Manu-
facturers Mutual Fire Insurance Companies of 184
High Street, Boston. The one I am looking at is
the appraisal of the Hochelaga branch.

15 The COMMISSIONER: Has that appraisal been put
in as an exhibit.

Mr. McRUER: It was sent in to Mr. Whiteley by
Mr. Gordon.

20 The COMMISSIONER: Has it been given a number ?

Mr. McRUER: I informed Mr. Gordon that when it
had satisfied Your Lordship's requirements it would
be returned to the company, because it is an ori-
ginal document and they might have need of it at
25 any time there was a fire.

The COMMISSIONER: That is understood. It will
be No. 1326.

Mr. McRUER: It is stated to have been made at
the request of the Manufacturers' Mutual Fire Insuran-
ce Company of Providence, Rhode Island.

THE COMMISSIONER OF THE GENERAL LAND OFFICE
OTTAWA, CANADA

Mr. WOODMAN: I was dealing with the question of insurance appraisal. Some effort was made more or less to belittle it and to suggest that we did not have it before us and therefore it was not an authentic appraisal. The whole appraisal has now been sent in. It consists of nine volumes and is stated to have been prepared by the appraisal division of the inspection department of the insurance companies of 184 High Street, Boston. The one I am looking at is the appraisal of the mortgage branch.

The Commissioner: Has that appraisal been put in as an exhibit.

Mr. WOODMAN: It was sent in to Mr. Chisholm by the Commissioner. Has it been given a number?

Mr. WOODMAN: I informed Mr. Gordon that when it had satisfied Your Lordship's requirements it would be returned to the company, because it is an original document and they might have need of it at any time there was a fire.

The Commissioner: That is understood. It will be No. 1326.

Mr. WOODMAN: It is stated to have been made at

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The COMMISSIONER: Who made it ?

Mr. McRUER: The appraisal was made by F. W. Blackwood in conference with F. A. Richaud, superintendent, Mr. A. F. Anson and Mr. A. H. McManus, office manager. Should these latter gentlemen be officers of the Hochelaga mill or the insurance company ?

Mr. HEWARD: Mr. Gordon will be here presently and he will be able to answer that question.

Mr. McRUER: There is a preamble which reads:

"This insurance valuation now of your plant has been made at your request by the appraisal division of the Factory Mutual Insurance Companies. It is intended to show in a concise way the insurable or burnable value of the property covered by your policies, and is based on replacement cost less depreciation." The words

The words "or burnable" after the word "insurable" are in brackets, indicating that the meaning is the same and that one is not an alternative. It goes on:

"The abbreviated form does not denote a lack of thoroughness in arriving at values but rather an attempt to eliminate minor detail and description not essential from an insurance standpoint. In estimating your values, the latest available data on buildings and equipment has been used in conjunction with our

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Mr. [REDACTED]: The appraisal was made by E. W. [REDACTED] in conference with Mr. A. A. [REDACTED], under- [REDACTED], Mr. A. T. [REDACTED] and Mr. A. H. [REDACTED]. [REDACTED] office manager. [REDACTED] would these latter gentlemen be officers of the [REDACTED] will or the [REDACTED]

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Mr. [REDACTED]: Mr. [REDACTED] will be here presently and he will be able to answer that question.

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"This insurance valuation now of your plant has been made at your request by the appraisal division of the factory mutual Insurance Companies. It is intended to show in a concise way the [REDACTED] or [REDACTED] value of the property covered by your policies and is based on replacement cost less depreciation." The words

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The words "or [REDACTED]" after the word "factory" are in brackets, indicating that the meaning is the same and that one is not an alternative. It

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"The abbreviated form does not denote a lack of thoroughness in arriving at values but rather an attempt to eliminate minor details and description not essential from an insurance standpoint. In estimating your value, the latest available data on buildings and equip- ment has been used in conjunction with our

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"experience covering a period of over twenty-five years in determining costs and depreciation. The prices obtained from building contractors in your vicinity and from manufacturers, on your class of equipment, are constantly reviewed and periodically brought up to date. We have not attempted to make an appraisal of stock and supplies, but have accepted your inventory figures as you are in a better position to determine the true value because of fluctuations on both quantity and cost. This appraisal is held confidential, and while primarily its purpose is to determine the amount of insurance required, it should always be of considerable value in the event of a serious loss, because the actual evidence might be destroyed, yet it would give you an inventory of your equipment. It should be understood, however, that an appraisal is never binding on the assured nor on the insurance companies, since all adjustment of losses must be made in accordance with the statutory conditions and standard form of policy which your state obliges insurance companies to use, namely, the actual cash value at the time of the fire, with proper deduction for depreciation, however caused."

Then, as I said this morning, they go into it in detail, item by item, showing how they have arrived at the different values that are indicated in the

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"experience covering a period of over twenty-
five years in determining costs and depreciation
The prices obtained from building contractors
in your vicinity and from manufacturers, on
your class of equipment, are constantly reviewed
and periodically brought up to date. We have
not attempted to make an appraisal of stock and
equipment, but have accepted your inventory
figures as you are in a better position to determine
the true value because of fluctuations in
both quantity and cost. This appraisal is
based on the information you have furnished and
does not constitute an assumption of insurance
losses. It should always be of considerable
value in the event of a serious loss, because
the actual evidence might be destroyed, yet it
would give you an inventory of your equipment.
It should be understood, however, that an appraisal
is never binding on the assured nor on the
insurance companies, since all adjustment of
losses must be made in accordance with the
statutory conditions and standard form of policy
which your state obliges insurance companies to
use, namely, the actual cash value at the time
of the fire, with proper deduction for depreciation.
Then, as I said this morning, the go into it in
detail, item by item, showing how they have arrived
at the amount which they have indicated in the

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appraisal. Though they refer to it as an abbreviated form, it does not appear to the layman at any rate to be very brief.

5 Mr. HEWARD: It certainly is abbreviated compared with the 1920 appraisal, which stands about three feet high.

10 Mr. Mc RUER: It goes down to one condenser, one hopper feeder, one motor and so on. The details seem to be pretty complete and explicit. Well, we have that appraisal of the plant and it shows the value in 1936 to be \$20,100,000, exclusive of land. At page 171 of the brief I go on to deal with it:

15 "This appraisal shows that the company's plant, buildings and machinery, with the exception of lands, substructures and excavations, is valued at \$20,100,177. The land is shown in an appraisal made for the company in 1920 at \$1,583,456.63. Since the company has
20 purchased the head office building in Montreal, a very valuable site on Victoria Square. Mr. Howson estimated additional land and substructures at \$500,000. No exception has been taken to this amount. These records, taken together,
25 show the present-day value of the company's properties to be \$22,133,633. The company's records show the assets of the company charged into the books over the period of years at \$41,679,277.06."

30 Mr. HEWARD: I do not wish to interrupt my learned friend, but I think I ought to state at this

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point that we challenge these figures; we do not agree with them.

The COMMISSIONER: What figures?

5 Mr. HEWART: I am referring to the statement that according to the company's records the assets charged into the books over the period of years amounted to \$41,679,277.06. We say that this figure represents an improper interpretation of the records.

10 Mr. McRUER: Do you contend that the records do not show that?

Mr. HEWART: They show \$38,686,867.96.

Mr. McRUER: I am under the disadvantage of not having Mr. Howson with me.

15 Mr. HEWART: If it will help you, you will find the figure I have given on page 4 of Exhibit 1232.

Mr. McRUER: Is that the one prepared by Mr. Glassco?

Mr. HEWARD: Yes.

20 Mr. McRUER: There is a difference of \$3,000,000, and at the moment I am not going to go into that. Mr. Howson will be here and he will check over the figures. I think it all comes back to the question of what Mr. Howson has taken out of the deductions
25 in his figures at the inception of the companies. There is a difference between Mr. Howson and Mr. Glassco as to whether they ought to take them in at the figures at which they were taken over, or write up the books by the amount at which the plant was
30 carried on the books of the old constituent companies.

...these figures; we do not

The Committee: That figures?

Mr. HOWSON: I am referring to the statement that

into the books over the period of years amounted to

\$41,878,877.98. We say that this figure represents

an improper interpretation of the records.

Mr. HOWSON: Do you contend that the records do

not show that?

Mr. HOWSON: They show \$5,180,887.90.

Mr. HOWSON: I am under the disadvantage of not

having Mr. Howson with me.

Mr. HOWSON: It is will help you, you will find

the figure I have given on page 4 of Exhibit 1282.

Mr. HOWSON: Is that the one prepared by

Mr. Howson?

Mr. HOWSON: There is a difference of \$1,000,000

and at the moment I am not going to go into that.

Mr. Howson will be here and will speak over the

figures. I think it all comes back to the question

of what Mr. Howson has taken out of the deductions

is the difference between Mr. Howson and Mr.

There is a difference between Mr. Howson and Mr.

Classed as to whether they ought to be taken in as

the figures at which they were taken over, or which

we took by the amount at which the plant was

written on the books. The \$1,000,000 difference

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Mr. HEWARD: My learned friend's brief says that the company's records show that the assets of the company were charged in the books at \$41,679,277.

5 Mr. McRUER: I must say that I cannot be expected to carry in my mind the details of the make-up of these companies. My learned friend has only one company to look after; I have several. The brief goes on:

10 "In arriving at this figure of \$41,679,277.06 the company has taken the plant and machinery into its books at the figure at which they stood on the books for the predecessor company, regardless of the price which the company had paid for them."

15 The COMMISSIONER: You mean that they are over-valued? Is that your contention?

Mr. McRUER: That is what they have taken them at in their books.

20 "The excess of the book value over the purchase price received by the predecessor company is \$2,191,261.37."

That brings me pretty close to the figure at which my learned friend gave us a moment ago.

25 Mr. HEWARD: I do not think so. Should not that sentence read, "the figure at which they stood on the books for the predecessor companies"?

Mr. McRUER: It was the predecessor companies.

30 Mr. HEWARD: And it was the shares that were purchased. According to our view, you are

MR. NEWARD: My learned friend's brief says that
the company's records show that the assets of the
company were charged in the books at \$41,879,877.
T. NEWARD: I must say that I cannot be expected
to carry in my mind the details of the make-up of
these companies. My learned friend has only one
company to look after; I have several. The brief
goes on:
"In arriving at this figure of \$41,879,877,
the company has taken the plant and machinery
into its books at the figure at which they
stood on the books for the predecessor company,
regardless of the price which the company had
paid for them."
The learned friend says that the company
valued? Is that your contention?
MR. NEWARD: That is what I have taken them
at in their books.
"The excess of the book value over the
purchase price received by the predecessor
company is \$1,000,000."
That brings me pretty close to the figure at
which my learned friend says the company was
valued. MR. NEWARD: I do not think so. Should not
that valuation be, "the value at which the company
on the books for the predecessor company?"
MR. NEWARD: It was the predecessor company.
MR. NEWARD: And it was the excess that was
attributed to the company, was it not?

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understating your case. The excess of the book value over the purchase price received by the predecessor companies is \$2,405,278.19.

5 Mr. McRUER: At any rate, for the purpose of this argument, a mere half million is neither here nor there.

Mr. HEWARD: I do not suppose that we shall make any progress if I checked all these figures as Mr. McRuer proceeds, because we do challenge his figures.

10 Mr. McRUER: I appreciate of course the fact that you challenge the principle.

Mr. HEWARD: We challenge the principle and we challenge also the accuracy of your figures.

15 Mr. McRUER: It would assist me if you gave me a memorandum showing exactly wherein you say our figures are wrong, so that I can have them submitted to Mr. Howson for verification. I am not an accountant and I must have the calculations made for me.

20 Mr. HEWARD; I shall be glad to do that.

Mr. McRUER: The brief continues:

"In addition to this, the company transferred from goodwill account to fixed assets account, \$3,563,109.91."

25 Mr. HEWARD: Our figure there, if you will take it down--

Mr. McRUER: I should prefer not to be interrupted. I do not think our figures will be found to be out. There may be a contention about this item or that--

30 Mr. HEWARD: Well, this particular figure is

out 33 per cent.

Mr. McRUER: You say it is; will you give us a memorandum of it.

Mr. HEWARD: I shall be glad to.

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The COMMISSIONER: It is a question of finding out what the company transferred from goodwill account to fixed assets account, and that ought to be ascertainable.

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Mr. McRUER: Even Mr. Glassco himself, who is acting for the company, had some difficulty in ascertaining some of these things.

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Mr. HEWARD: What surprised us was that Mr. Howson has agreed with him after giving his evidence, and now we find these figures in the brief.

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Mr. McRUER: There is nothing in the brief which we do not think absolutely correct. If my learned friend is going to make any suggestion of that kind--

Mr. HEWARD: You misunderstand me, Mr. McRuer. I am not charging you with bad faith at all. Surely, however, one or the other is mistaken. We had been under the impression that Mr. Howson had agreed with Mr. Glassco but apparently we were mistaken, because the figures here are not in agreement with ours.

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Mr. McRUER: Well, for that matter, both Mr. Howson and Mr. Glassco were around last week and if Mr. Glassco had gone to Mr. Howson and said, "We want to agree on these figures", instead of sparring around and interrupting me in the middle of my argument, it would have been much more to the point. They could

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out 55 per cent.

MR. MORRIS: You say it is; will you give us a memorandum of it.

It is a question of finding

out what the company transferred from good will account to fixed assets account, and that ought to be ascertained.

MR. MORRIS: Even Mr. Glasco himself, who is nothing for the company, had some difficulty in ascertaining some of these things.

MR. HOWARD: What surprised me was that Mr. Howson had agreed with him after giving his evidence, and now to find these figures in the brief.

MR. MORRIS: There is nothing in the brief which we do not find in the evidence. If my learned friend is going to make any suggestion of that kind--

MR. HOWARD: You are contradicting me, Mr. Morris. I am not charging you with bad faith at all. Simply, however, one or the other is mistaken. We had been under the impression that Mr. Howson had agreed with the figures here are not in agreement with ours.

MR. MORRIS: Well, for that matter, both Mr. Howson and Mr. Glasco were around last week and Mr. Glasco had gone to Mr. Howson and said, "We want to agree on these figures", instead of agreeing around me in the middle of my argument, it would have been better to the point. They could

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have sat down and worked it out together. There is not much advantage in following these tactics.

Mr. HEWARD: We will not interrupt you again, Mr. McRuer.

5 Mr. McRUER: If Mr. Glassco disagreed with us he could easily have gone to Mr. Howson and said, "Let us work out these figures and see if we cannot come to some agreement; if there is a difference in principle, very well, but if it is a matter of figures we can straighten them out."

10 Mr. HEWARD: It has been set out in our exhibits since November.

15 Mr. McRUER: Well, I certainly disagreed with a good deal of the evidence that Mr. Glassco gave in this respect, but if it is a question of figures that is a different thing. He made a most extraordinary contention as far as the \$7,500,000 item was concerned.

20 "Thirdly, the company wrote up its assets in 1923 by \$7,500,000 on the basis of an appraisal that had been made in 1920, evidently with a view to the redistribution of stock which took place in 1923."

25 Here, let me repeat what I said yesterday.

Mr. Glassco's contention was that this was a revaluation made at that time because of increment in values and not because of overdepreciation--not because they had depreciated too far and found that they were now worth more, but because there had been

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took place in 1938.

with a view to the redistribution of stock with
appraisal that had been made in 1930, evidence
in 1938 by \$7,500,000 on the basis of an

"Initially, the company was set up to operate

because they had been listed too far and found that
values and not because of overvaluation--not
that was at all time because of movement in
Mr. Blassoff's contention was that this was a reversal
of the report what I said yesterday.

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an increment in value since they were charged into the books at cost price. If that is true, the company was doing a very improper thing, namely, issuing stock on the basis of book value for all time of building and machinery right after the war, and then leaving the public to pay dividends on that stock that had been issued in that way. If it is contended that that is what they did, it does not make much difference to us in this inquiry, but they ought not come to the consumers and say, "Give us a subsidy to pay dividends on stock we issued when we found that our plant was at a high point."

"The total of the inflation that thus took place in the book values amounted to \$13,254,371.28, leaving the actual cost, that is, the actual amount which had been paid by the company for these assets, \$28,424,855.78."

That \$13,000,000 odd is made up of these items: \$7,500,000; \$3,563,000 in goodwill; and the \$2,191,000. Mr. Heward says it should be more in the one case and less in the other, so that he is probably not far out in the net result. Now that figure of \$28,424,855.78 even making all allowances for anything Mr. Heward has said, is substantially correct. I believe it is correct or Mr. Howson would not have given it to me. But as far as this is concerned, there is no use quarrelling over a million dollars of goodwill here and there because it is an item that finally irons out at \$17,000,000.

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an agreement in value since they were changed into the books at best price. If that is true, the company was doing a very improper thing, namely, issuing stock on the basis of book value for all the then leaving the public to pay dividends on that stock that had been issued in that way. If it is contended that that is what they did, it does not make much difference to us in this industry, but they ought not come to the consumers and say, "Give us a subsidy to pay dividends on stock we issued when we found that our plant was at a high point."

"The total of the inflation that thus took place in the book values amounted to \$18,304,377 leaving the actual cost, that is, the actual amount which had been paid by the company for these assets, \$28,484,355.78."

That \$18,304,377 is made up of these items: \$7,300,000; \$8,300,000 in goodwill; and the \$2,704,377. Mr. Howard says it should be more in the one case and less in the other, so that he is probably not far out in the net result. Now that figure of \$28,484,355.78 even making all allowances for anything Mr. Howard has said, is substantially correct. I believe it is correct or at least would not have given it to me. But as far as this is concerned, there is no quarrelling over a million dollars of goodwill here and there because

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Mr. HEWARD: It is understood that I am not expected to correct Mr. McRuer's figures as he goes along, because we challenge every figure.

5 The COMMISSIONER: You can come back to these when dealing with your brief.

Mr. HEWARD: Mr. McRuer suggests that we might not be far out, but I find that we are.

10 Mr. McRUER: I am trying to come down to a basis of pure fact and not on the basis of conjecture which Mr. Glasco attempted to give us in his evidence.

15 "Exhibit 917, page 8, shows that the amount written off during the years 1915-1936 total \$19,865,990.66, which, taken together with other amounts written off from profits for obsolescence, et cetera, amounts to \$23, 506,950.95. This leaves the unabsorbed portion of the fixed assets as of March 31, 1936, on a cost basis, at \$4,917,904.83--"

20 Mr. HEWARD: Is there not a clerical error there? You speak of the amount written off during the years 1915-1936; should it not be from 1905 to 1936?

25 Mr. Mc RUER: Yes, that is right. So that when you expunge the inflation out of the book values and take the depreciation off, it leaves the value, according to the books, at \$4,917,904.83. Now, for the purpose of the argument will my learned friend
30 tell me what, on the basis of the same operation, he

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Mr. HENRY: It is understood that I am not
expected to correct Mr. HENRY's figures as he has
along, because we challenge every figure.

The COMMISSIONER: You can come back to them
when dealing with your brief.

Mr. HENRY: I am trying to come down to a point
of pure fact and not on the basis of conjecture
which Mr. GIBSON attempted to give me in his evi-

den-
"Exhibit 217, page 8, shows that the
total of the fixed assets as of March 31,
1935, on a cost basis, at \$4,917,504.88.

for obsolescence, of course, amounts to
\$28,506,350.92. This leaves the unabsorbed
portion of the fixed assets as of March 31,

1935, on a cost basis, at \$4,917,504.88.

Mr. HENRY: Is there not a clerical error
there? You speak of the amount written off during
the years 1932-1935; should it not be from 1933 to

1936?

Mr. GIBSON: Yes, that is right. So that when
you take the depreciation off, it leaves the value,
according to the books, at \$4,917,504.88.

the balance of the depreciation is \$28,506,350.92.

that is right, because we are not going to

take the depreciation off, it leaves the value,

according to the books, at \$4,917,504.88.

the balance of the depreciation is \$28,506,350.92.

makes that figure out to be ?

Mr. HEWARD: I make it \$8,335,057.08.

The COMMISSIONER: Is that instead of the
\$19,000,000 ?

Mr. McRUER: No, instead of the \$4,000,000 odd.

Mr. HEWARD: Without admitting the principle ?

Mr. McRUER: Applying the principle to the figure
my friend makes it \$3,500,000 more, and that would
reduce the profit which we are looking for--we are
trying to find whether it is there or not--by that
amount. The brief goes on:

"But taking the insurance appraisal of
1936 as a basis, the value of the plant to-day
is \$22,183,633. In the absence of increased
values between the time of the capital outlays
for plant and machinery and taking of the
appraisal values of 1936, there appears to be
a secret reserve of profits amounting to
\$17,265,728.17."

The only difference seems to be, according to
my learned friend, the sum of \$3,500,000, and that
would reduce that secret reserve of profit to about
\$14,000,000 instead of \$17,000,000.

Mr. HEWARD: We are not admitting the principle.

Mr. McRUER: Now the only question where there
can be any dispute in principle is where there has
been an increment in values between the time the
costs were charged into the books and the time the
insurance appraisal was made--that is, assuming the

asked what figure out to be ?

Mr. HENRY: I make it \$2,325,000.

The COMMISSIONER: Is that instead of the

\$19,000,000 ?

Mr. HENRY: No, instead of the \$4,000,000 odd.

Mr. HENRY: Without admitting the principle ?

Mr. McWILLIAMS: Applying the principle to the figure

my friend makes it \$2,500,000 more, and that would

reduce the profit which we are looking for--we are

trying to find whether it is there or not--by that

amount. The brief goes on:

"But taking the insurance expenditure of

1933 as a basis, the value of the plant today

is \$22,193,000. In the absence of increased

values between the time of the original outlay

for plant and machinery and taking of the

approximate value of 1933, there appears to be

a slight surplus of \$17,000,000.

\$17,000,000.

The only difference seems to be, according to

my learned friend, the sum of \$2,500,000, and that

would reduce that secret reserve of profit to about

\$14,000,000 instead of \$17,000,000.

Mr. HENRY: We are not admitting the principle.

Mr. HENRY: The only question which arises

is whether the principle is admitted or not.

There is no question as to the fact that the

costs were charged into the books and the time the

insurance expenditure was paid--that is, admitted.

insurance appraisal was reasonably correct. Mr. Glassco said he thought it could be taken as reasonably correct; that was his evidence. He said that it might vary three or four millions either way.

5 Allowing for a deduction of \$3,000,000 it comes out to something in the neighbourhood of \$12,000,000.

"It is contended by Mr. Glassco, on behalf of the company, that there had been an appreciation in value between the time of the capital outlay and the appraisal, and, in order to demonstrate this,--"

10 The COMMISSIONER: What appraisal has that reference to ?

15 Mr. McRUER: That is referring to the 1920 appraisal, My Lord.

"In order to demonstrate this, Mr. Glassco proceeded to justify the inflation in book value of \$7,500,000, which took place in 1923 following an appraisal, made in 1920, by showing that the cost of erecting plant and machinery had increased by approximately 100 per cent between 1910 and 1920 and Mr. Glassco offered the opinion that there had been no over-depreciation up until 1920."

25 He would not offer any such opinion after 1920; all he would say was, "I do not know", and he was acting for the company with their resources behind him.

30 "The company, however, in its own statement

...is apparently was reasonably correct. Mr. ...
 ...said he thought it could be taken as reason-
 ably correct; that was his evidence. He said that
 it might vary three or four millions either way.
 ...for a deduction of \$5,000,000 it comes out
 to something in the neighbourhood of \$12,000,000.
 "It is contended by Mr. Glasco, on behalf
 of the company, that there had been an appra-
 ciation in value between the time of the capital
 outlay and the appraisal, and, in order to
 demonstrate this,--"
 The COMMISSIONER: That appraisal was that
 reference to ?
 Mr. MARRER: That is referring to the 1920
 appraisal of 1921.
 "In order to demonstrate this, Mr. Glasco
 proceeded to justify the inflation in book
 value of \$7,000,000, which took place in 1925
 ...that the cost of erecting plant and machinery
 had increased by approximately 100 per cent
 between 1910 and 1920 and Mr. Glasco offered
 the opinion that there had been no over-depre-
 ciation up until 1920.
 He would not offer any such opinion after 1920;
 all he would say was, "I do not know", and he was
 stating for the company with their resources being

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"put out to the shareholders on the 31st March, 1935, (Exhibit 329, page 15) stated:

'Over a period of 15 years, the physical assets acquired in 1905, and worth approximately \$11,000,000 at that time, had been doubled in value through a steady program of yearly replacements and betterments, combined with the natural appreciation in values of all kinds between 1905 and 1920!'

And we read yesterday from their minutes that there had been a steady program of yearly replacements and betterments.

"The effective depreciation written off over the period to 1924 amounted to \$9,400,156.43, which was more than sufficient to take care of actual wear and tear and to cover, as well, capital losses, amounting to \$540,895.85, incurred in disposing of certain unprofitable units of the old Dominion Cotton Mills Company, Limited, where manufacturing operations were discontinued. Over the same period, the company had followed a policy of keeping its physical properties in the best possible state of repair, and had spent \$6,926,746.40 on repairs to buildings and machinery."

That was their own statement, and I venture to suggest that if there were expropriation proceedings in respect of any of these mills that statement would be greatly emphasized. We would hear a different

1932, (Exhibit 320, page 18) stated:

\$11,000,000 at that time, had been doubled in

and we read yesterday from their minutes that

and detained for

"The effective date of the new regulation will be 10/1/80."

over the period to 1984 amounted to 12,400,000, 2% of bathrooms ASSEI or boilers etc.

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story completely if we were in an arbitration as to the value of these plants. They would not be run down.

5 "Mr. Glassco offers the opinion that there was no excessive depreciation up until 1920, but he declines to offer any opinion as to whether there was an excessive depreciation after 1920, and although he has access to all the company's records, and was apparently making a special study of this matter, he did not secure from Dominion Textile Company Limited, any statement as to the replacement costs of capital expenditures, having in mind the replacements that the company has made from time to time over the period of years."

15 Let us take it another way--that is, covering the period from 1920 to 1936.

20 "The situation may be examined by comparing the value of the plant, buildings and machinery as of 1920 on the basis of the appraisal made at that time together with the capital expenditures since 1920 less the depreciation charged to operations and other capital adjustments from 25 1920 to 1936 with the appraisal of the company's physical assets made in 1936."

30 They went up to a peak in 1920 when the appraisal was made; then we take the decline in the value of physical assets from 1920 to 1936, plus the replacements that were made, the capital expenditures made,

...completely if we were in an as situation as
to the value of these plants. They would not be run
...
"Mr. Glasco offers the opinion that there
was no excessive depreciation up until 1930,
but he declines to offer any opinion as to
whether there was an excessive depreciation
after 1930, and although he has access to all
the company's records, and was apparently making
a special study of this matter, he did not recall
from Southern Textile Company Limited, any state-
ment as to the replacement costs of capital
expenditures, having in mind the replacement
that the company has made from time to time
over the period of years."
Let us take it another way--that is, covering
the period from 1930 to 1935.
The situation may be examined by comparing
the value of the plant, buildings and machinery
as of 1930 on the basis of the appraisal made at
that time together with the capital expenditures
since 1930 less the depreciation charged to
operations and other capital adjustments from
1930 to 1935 with the appraisal of the company's
physical assets made in 1935."
They went up to a peak in 1930 when the appraisal
was made; then we take the decline in the value of
...
...the capital expenditures made,

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and the decline, if any, between the time when the capital expenditures were made and 1936. That is to say, if there is capital expenditure made in 1927, take the decline in replacement values from 1927 to 1936; because, if you take it one way, the rise, then it is perfectly right to take the decline; for the value that is put on in 1936 is the value put on the physical assets after they have declined to 1936 values. The brief goes on:

"In the preparation of the statement appearing on page 8 (Exhibit 917) the purpose was to show the present book value of the land, buildings and machinery on the basis of cost to the company after eliminating all write-ups, both at the time of purchase of the original company and through revaluations on the basis of the 1920 appraisal. From the figure so obtained, amounting to \$28,424,855.78, was deducted the depreciation and all amounts written off and credited to capital accounts; these during the period from 1905 to 1936 amounted to \$23,506,950.95, leaving a book value of \$4,917,904.00.

Early in 1936 the company's physical assets exclusive of the head office building were appraised by the appraisal department of the Manufacturers Mutual Fire Insurance Company at \$21,128,836. This appraisal covered the machinery, equipment and buildings, with the exception

and the decline, it may, between the time when the
capital expenditures were made and 1935. It is to be
said, if there is capital expenditures made in 1937,
take the decline in replacement value from 1937 to
1938; because, if you take it one way, the rise, then
it is perfectly right to take the decline; for the
value that is put on in 1935 is the value put on the
physical assets after they have declined to 1935
values. The first case is.

"In the preparation of the statement of assets
set on page 8 (Exhibit 217) the purpose was to show
the present book value of the land, buildings
and machinery on the basis of cost so far as
very after eliminating all write-ups, both at
the time of purchase of the original company
and through revaluations on the basis of the
1930 appraisal. From the figure so obtained,
amounting to \$2,484,865.78, was deducted the
depreciation and all amounts written off and
credited to capital accounts; the balance of
period from 1905 to 1935 amounted to
\$2,300,250.95, leaving a book value of
\$1,111,111.11.

Early in 1935 the company's physical assets
were revalued at \$1,111,111.11, which was
the same as the book value of the assets
at that time. The revaluation was made on the
basis of the 1930 appraisal, and the amount
of \$1,111,111.11 was credited to the capital
accounts and debited to the reserve for depreciation
account.

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"of the uninsurable portions, and does not include land values."

5 Mr. HEWARD: I am not interrupting my learned friend in order to challenge any figure at the moment. In the last paragraph, however, he speaks of a book value of \$4,000,000 odd. I presume he means depreciated cost, because our book value at that time was much higher as his own exhibits show.

10 Mr. McRUER: The book value, after making the deductions in question, is the amount stated.

The COMMISSIONER: That is what you have been calling it all through.

15 Mr. HEWARD: But should not that be "depreciated cost" ?

The COMMISSIONER: "Book value" is not the appropriate term.

20 Mr. McRUER: Take the book value and expunge from it the inflation and these write-ups, and that is the book value.

The COMMISSIONER: You take the book value and subtract these other items and then you say, "This is the value".

25 Mr. HEWARD: What is meant there is depreciated cost.

The COMMISSIONER: I understand what it means, though I do not think that "book value" is appropriate. It is the book value minus something.

30 Mr. McRUER: There is no doubt about that; it is the book value less the inflation.

"of the unmarketable portions, and does not

include land values."

MR. HENRI: I am not interpreting my learned

friend in order to challenge any figure at the moment
in the last paragraph, however, he speaks of a book
value of \$4,000,000 odd. I presume he means depre-
ciated cost, because our book value at that time was
much higher as his own exhibits show.

MR. HENRI: The book value, after writing off the

deductions in question, is the amount stated.

THE COMMISSIONER: That is what you have been

saying all through.

MR. HENRI: But should not that be "depreciated

cost"?

THE COMMISSIONER: "Book value" is not the

appropriate term.

MR. HENRI: Take the book value and exchange from
it the inflation and these write-ups, and that is the

THE COMMISSIONER: You take the book value and

subtract these other items and they say, "This
is the value."

MR. HENRI: What is meant there is depreciated

THE COMMISSIONER: I understand that is what
you mean I do not think that "book value" is appropriate

to the book value minus something.

MR. HENRI: There is no doubt about that; it is

the book value less the inflation.

The COMMISSIONER: Are you going to say, "Book value less" certain items ?

Mr. McRUER: It is not entered in the books.

The COMMISSIONER: It is the book value minus.

5 Mr. McRUER: The value is a very much greater thing.

The COMMISSIONER: It is the book value minus all these things.

Mr. McRUER: It is a book value minus all these things.

10 The COMMISSIONER: And you call it a depreciated cost, Mr. Heward ?

Mr. HEWARD: Depreciated cost. It is taking the book value, wiping out the so-called inflations and bringing it back to the actual cost less depreciation.

15 Mr. McRUER: That is right.

Mr. HEWARD: So that it is depreciated cost ?

Mr. McRUER: That term might be used. I go on:

"This appraisal covered the machinery,

20 equipment and buildings, with the exception of the uninsurable portions and does not include land values.

Comparing the present book value, as arrived at above--"

25 The COMMISSIONER: That is, the depreciated cost.

Mr. McRUER: Yes, the depreciated cost of \$4,917,904 with this figure would leave a surplus of \$16,210,932, to which would have to be added the value of the land and the substructures to arrive at the actual surplus of present value over book value.

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Q. Now, you are going to say, "Book value" is the value of the book as it is not entered in the books.

A. Yes, it is not entered in the books. The book value is the value of the book as it is not entered in the books.

Q. Now, the value is a very much greater value than the book value. It is the book value minus all the depreciation.

A. Yes, it is a book value minus all the depreciation. It is a book value minus all the depreciation.

Q. The depreciation is a very much greater value than the book value. And you call it a depreciated cost.

A. Yes, it is a depreciated cost. It is a depreciated cost. It is a depreciated cost.

Q. Now, the value is a very much greater value than the book value. It is the book value minus all the depreciation.

A. Yes, it is a depreciated cost. It is a depreciated cost. It is a depreciated cost.

Q. This depreciation covered the machinery.

A. Yes, it is a depreciated cost. It is a depreciated cost. It is a depreciated cost.

Q. Concerning the present book value, as arrived at above--

A. Yes, it is a depreciated cost. It is a depreciated cost. It is a depreciated cost.

Q. Now, the value is a very much greater value than the book value. It is the book value minus all the depreciation.

A. Yes, it is a depreciated cost. It is a depreciated cost. It is a depreciated cost.

So that doing it another way we arrive at practically the same result.

"The company objects to this basis of calculation and through Mr. Glasco, who appeared on its behalf, makes the claim that the valuations, as placed upon the books at the time of the original purchase, were justified because they were the same values that appeared on the books of the original companies, and were paid for in stock by Dominion Textile Company, Limited, on this basis."

Well, he does not exactly say that. He does not say that they were paid for in stock on the basis of value shown on the books of the original companies. Dominion Textile got the assets by payment in stock to the shareholders of the original companies.

"It is further claimed that the subsequent write-up which was made in 1922 on the basis of the 1920 appraisal was justified because of an actual increase in the value of physical assets which had occurred between 1913 and 1920 of approximately 100 per cent. He produced tables to support this claim.

Accepting Mr. Glasco's argument as being the basis for the write-up, there can be no objection to using the same method in dealing with book values that are on the company's books at March 31st, 1936. In other words, the appraisal taken in 1936 is on the values of

so that doing it another way we arrive at precisely the same result.

"The company objects to this basis of valuation and through Mr. Glasco, who appeared on its behalf, makes the claim that the values as placed upon the books at the time of the original appraisal, were justified because they were the same values that appeared on the books of the original companies, and were paid for in stock by Dominion Textile Company, Limited, on this basis."

Well, he does not exactly say that. He does not say that they were paid for in stock on the basis of value shown on the books of the original companies. Dominion Textile got the assets by payment in stock to the shareholders of the original companies.

It is further claimed that the subsequent write-up which was made in 1935 on the basis of the 1930 appraisal was justified because of an actual increase in the value of physical assets which had occurred between 1915 and 1930 of approximately 100 per cent. He produced tables to support this claim.

Accepting Mr. Glasco's argument as being the basis for the write-up, there can be no objection to using the same method in dealing with book values that are on the company's books at March 31st, 1935. In other words, the appraisal taken in 1935 is on the value of

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"plant and machinery prevailing at that date. Upon investigation, it is found that there has been an average drop in values as between 1920 and 1936 of 40 per cent of the 1920 figures. This is borne out by a statement included in a letter received from the Textile World of New York City, dated December 2nd, 1936, which is not in evidence but is quoted as coming from a reliable source."

It is addressed to Mr. Whiteley. Of course, Mr. Howson gave evidence to the effect that the Bureau of Statistics showed that on iron, buildings, and so forth there was a drop of 40 per cent. If we come up to 100 per cent in 1920, there has been a rise up to 100, and then there is a drop to 40, we are practically back to within 20 per cent of where we started. The 40 per cent is on the inflated value. That is an important part of the argument; we are back to where we started. This letter is from William B. Dall, managing editor of the Textile World, and reads:

"Mr. A. S. Whiteley,
Royal Commission of the Textile
Industry,
National Research Building,
Ottawa, Ont.
Canada.

Dear Sir:

Answering your inquiry of November 30, we offer from our information files a few figures on the subject of cotton mill erecting which may be useful to you.

"plant and machinery travelling at that date.
Upon investigation, it is found that there
has been an average drop in values as between
1930 and 1935 of 40 per cent of the 1930 figure.
This is borne out by a statement included in a
letter received from the Textile World of New
York, dated January 1, 1936, which is
not in evidence but is quoted as coming from
a reliable source."

It is addressed to Mr. Whiteley. Of course,
Mr. Howson gave evidence to the effect that the
Bureau of Statistics showed that on iron, buildings,
and so forth there was a drop of 40 per cent. It is
come up to 100 per cent in 1930, there has been a
rise up to 100, and then there is a drop to 40, we
are practically back to within 20 per cent of where
we started. The 40 per cent is on the inflated
value. That is an important part of the argument;
we are back to where we started. This latter is
from William B. Hall, managing editor of the Textile
World, and reads:

"Mr. A. S. Whiteley,
Royal Commission of the Textile
Industry,
National Research Building,
Ottawa, Ont.
Canada."

Industry of November 30,
we are from our information files a few
figures on the subject of cotton mill
closing down and so forth to you.

"This information comes from statements made by manufacturers of machinery men in their reported addresses before conventions or interviews.

5 In 1917, it was stated that to construct and equip a cotton mill would cost \$15 to \$20 or more, per spindle.

In 1921, at the height of the post-war boom, it was said to cost \$80 per spindle to erect and equip a new cotton mill."

10 Of course, the appraisal was made in our case in 1920.

15 "In 1934, it was said to cost from \$45 to \$50 per spindle to erect and equip a cotton mill, of which sum approximately \$25 was for machinery.

We hope that this information is of some use to you and thank you for the opportunity of serving you."

20 "The conclusions of this letter are also borne out by the price indices prepared by the Dominion Bureau of Statistics in respect to 'building and construction' costs and the costs of 'iron and its products'. The first item, appearing on page 808 of the Bureau's Year Book, 25 1936, shows that in 1920 the index cost of building and construction was 144.0 as against in 1935, 81.2 and in respect to iron and its products, appearing on page 807 of the same volume, in 1920 the index figure was 168.4 and, 30 in 1935, 87.2. These figures clearly indicate the substantial reduction in the cost and value

14497

"of equipment of this kind occurring between 1920 and 1936.

In his evidence, Mr. Glassco mentions a figure of \$73.05 per spindle as the 1930 basis of cost. Similar tables to those used by Mr. Glassco are not available for 1936, but there is every reason to believe that such tables would show the same relative drop in values as shown by the tables available."

The year 1930 given in that paragraph in connection with the \$73.05 should be 1920. We then proceed to reduce those values that were set up in 1920.

"In view of the above facts, the only fair comparison with the 1936 appraisal would be to reduce the values set up on the books on the basis of the 1920 appraisal, with all additions since, to the values prevailing in 1936.

In 1920, the appraised value of the land and buildings, plant and machinery, amounted to \$22,918,033.32. After eliminating the value of the real estate included therein of \$1,583,456 the value of the buildings and machinery amounted to \$21,334,577. On the basis of 40 per cent reduction, the present value of this item is \$12,800,746."

That is, taking 40 per cent off to bring it to 1936 value.

"The plant of the Dominion Cotton Mills Company Limited was purchased in 1921 at a cost of 2,157,160. The present value would be 1,294,296.

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"of comparison of the two countries in 1930."
In his evidence, Mr. Glasco mentions a
claim of \$75.00 per acre as the 1930 value
of cost. Similar tables to those used by Mr.
Glasco are not available for 1930, but there is
every reason to believe that such tables would
show the same relative drop in values as shown
by the tables available."
The year 1930 given in that paragraph in connec-
tion with the \$75.00 should be 1920. We then proceed
to reduce those values that were set up in 1930.
"In view of the above facts, the only fair
comparison with the 1930 appraisal would be to
reduce the values set up on the books on the
basis of the 1920 appraisal, with all additions
since, to the values prevailing in 1920.
In 1920, the appraised value of the land
and buildings, plant and machinery, amounted to
\$22,918,038.32. After eliminating the value
of the real estate included therein of \$1,383,43
the value of the buildings and machinery amounted
to \$21,534,577. On the basis of 40 per cent
reduction, the present value of this item is
\$13,200,746."
That is, taking 40 per cent off to bring it to

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Mr. GORDON: The word "Mills" should not appear in the name of the company; it is the Dominion Cotton Company, Limited.

Mr. McRUER: The statement goes on:

"The buildings and machinery taken over from the Sherbrooke Cotton Company in 1928 cost 1,936,677. The present value would be 1,699,152.

There were additions to building, plant and machinery between 1920-1936 amounting to 10,113,238. Reducing these to present value on the basis of the index cost prevailing on the date of purchase, gives present value of 8,799,926.

14500 follows

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Mr. Gordon: The word "mills" should not appear

in the name of the company; it is the Dominion Cotton

Company, Limited.

Q. Now, the present value of the

company is \$1,000,000.

A. Taken over from the other

Brooke Cotton Company in

1938 cost \$1,988,697.

The present value would be \$1,888,153.

There were additions to

building, plant and

equipment between 1938

and 1938 amounting to \$10,118,388.

Rebating these to

present value on the

basis of the index cost

prevailing on the date

of purchase, gives

present value of

\$8,799,928

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That is the value charged into the books for the plant either at the time of the write-up or at the time that capital additions were made. Then, the present value of that is \$24,594,120. "From this latter figure should be deducted depreciation charged amounting to \$17,875,243." That is the amount charged to profits for depreciation. "Miscellaneous sales and disposals amounting to \$769,339". Those have gone out. "Leaving a net present value amounting to \$5,949,598", which is getting back again not very far away from what I called the book value on the other page, but which we call the depreciated cost of \$4,917,000, and my friend suggests it should be some more there, but we get back to this figure here. Comparing this with the 1936 appraisal leaves a difference of \$15,179,238. Now, that simply means this, where you take the appraised value in 1936 and say that is worth \$21,128,836. Then, you show how it has been treated in the books, with the value that has been charged into the books for the cost of it, bring that down to present day values and then deduct the amount that has been charged to profits for depreciation, and we find that the plant has still \$15,179,000 greater value which again proves that the depreciation is \$15,000,000 more than was actually necessary to keep the plants in actual efficient running order, because we find all the way through, as I am going to deal with, that they have charged very large sums for repairs and betterments.

MR. HEWARD: I don't suppose it is necessary for me

That is the value charged into the books for the plant at the time of the write-up or at the time that capital expenditures were made. Then, the present value of that is \$24,324,130. When this latter figure should be deducted depreciation charged amounting to \$17,875,243. That is the amount charged to profit for depreciation. "My calculations make and figure out amounting to \$768,887. Those have gone out. "I have a net present value amounting to \$2,548,887, which getting back again not very far away from what I said the book value on the other page, but which is only the depreciated cost of \$4,917,000, and my friend suggests it should be some more there, but we get back to this figure here. Comparing this with the 1936 appraisal leaves a difference of \$18,179,888. Now, that is the value in 1936 and say that is worth \$21,138,036. Then you know how it has been treated in the books, with value that has been charged into the books for the cost of it, bring that down to present day values and then deduct the amount that has been charged to profit for depreciation, and we find that the plant is still \$12,179,000 greater value which again proves that the depreciation in \$15,000,000 more than was actually necessary to keep the plant in actual efficient running order; because we find all the way through, as I am going to deal with, that they have charged a large sum of money and depreciation.

MR. HENRY: I don't suppose it is necessary for

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to repeat that I challenge the figures and the principle, Mr. McRuer.

MR. McRUER: Well, of course, I would expect you to.

MR. HEWARD: The principle you might expect me to challenge but the figures I also challenge, and here, as before, I do not admit these figures.

MR. McRUER: Well, we will have them. The calculations, I think, are all correctly made and we will see what your figures are.

MR. HEWARD: Might I ask just before you go on what indexes you used to get this last figure?

MR. McRUER: Index figures from the --

MR. HEWARD: "-- to the present value on the basis of the index cost"--

THE COMMISSIONER: I did not hear the answer.

MR. McRUER: From the Statistical Department of Trade and Commerce.

MR. HEWARD: "Reducing these to present value on the basis of the index cost prevailing on the date of purchase, gives present value of \$8,799,926".

MR. McRUER: Yes.

MR. HEWARD: These are reduced on the basis of what index figure?

MR. McRUER: The Department of Trade and Commerce, Statistical Department.

MR. HEWARD: The one you refer to on the previous page?

MR. McRUER: Yes.

MR. HEWARD: "Building and Construction costs and the cost of iron and its products"?

MR. McRUER: Yes, because they are all that we have got available. I think that the company could have shown all this if it had wanted to try. I am quite sure Mr. Glassco would be good enough, if we were engaged in an arbitration over this company, to show what profits it had earned, but we have got to use the best available, and all I am doing in this -- I cannot expect to be accurate in them or to be taken to be accurate within a million dollars or two, but I am saying that in addition to the \$28,000,000 they had that I dealt with this morning, that they have got a very substantial reserve of profit in their buildings, plant and machinery which is contributed by the consumers. Now --

"It would fairly appear to be undisclosed profits during the period from 1920 to 1936, created by overdepreciation and betterment and repairs charged to profits which, during that period, were as follows: Depreciation \$17,875,243, repairs and betterments \$10,116,419, equipment charges from only 1927/ to 1936, \$2,067,600", and I have "plus what cannot be traced".

What I mean by that is, we find, for instance, in the case of the Montreal Cotton Company that a large amount of the wages for repairs, for instance -- I think it was \$250,000 in one year in revamping the plant -- were charged against the ordinary pay roll, 33% of which was charged against capital expenditure. So there is always the difficulty of tracing these things through. Probably the company cannot do it themselves now.

14002

MR. McEwen: Yes, because they are all that we have

the company. I believe that the company has

some of the best of the company.

the company. I believe that the company has

in an exhibition over this company, to show what

profits it had earned, but we have got to use the best

available, and all I am doing in this -- I cannot

expect to be seen to in them or to be taken to be

separate within a million dollars or two, but I am

saying that in relation to the \$10,000,000, we have

that I dealt with this morning, that they have got a

very substantial reserve of profit in their building

plant and machinery, which is a substantial part of the

summers. Now --

the company is in a position to be well placed

during the period from 1920 to 1926, created by

over the period the company has been in a position

to profits which, during that period, were as

follows: Depreciation \$17,875,248, repairs and

betterment \$10,116,419, equipment charges from

only

\$12,116,419, and I have "plus" that

cannot be traced."

What I mean by that is, we find, for instance, in the

case of the Montreal Cotton Company that a large amount

of the wages for repairs, for instance -- I think it

is not, but it is not in the company's plant --

the company is not in the company's plant --

the company is not in the company's plant --

the company is not in the company's plant --

the company is not in the company's plant --

" In respect to the period prior to 1920, in spite of Mr. Glassco's claim that the increase in values justified the write up and that there is no evidence of overdepreciation and charges to betterment creating undisclosed profits, the facts are as follows:

That during that period the total amount of additions capitalized, excluding the purchase of the Mount Royal Mill, which was not taken over until the year 1920, were less than \$2,000,000. and that, during the period, there was written off plant and machinery: To Profit and Loss Account directly \$3,067,065.33; to Depreciation Account \$2,059,237.60; To reserves taken over from old Company \$563,479.86; For Repairs and Betterments \$4,290,250.13 making a total of \$9,980,032.92 charged to operations during that period in respect to plant and machinery which cost the company, even on its own figures, \$12,624,302.52.

From these figures it would appear to be obvious that the Company's own statement, in its booklet filed as Exhibit 329, can be accepted as accurate, that is that the write up in 1920 included amounts charged depreciation"-- that should be "charged to depreciation" --"that were not required and amounts applied to betterments and repairs and charged to profits creating an asset which was given effect to when this revaluation was placed on the books.

The total assets created by charges to profits for overdepreciation, betterments and repairs appears

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" In respect to the period prior to 1930, in
apite of Mr. Glasco's claim that the increase in
values justified the write up and that there is no
evidence of overdepreciation and charges to better-
ment creating undisclosed profits, the facts are as
follows:

That during that period the total amount of
additions capitalized, excluding the purchase of
the Mount Royal Mill, which was not taken over until
the year 1932, was less than \$1,000,000. And that
during the period, there was a large amount of
machinery: To Profit and Loss Account directly
\$3,067,068.35; to Depreciation Account \$2,089,337.88;
To reserves taken over from old company \$383,473.67;
For Repairs and Betterments \$4,390,350.13 making a
total of \$9,920,822.93 charged to operations during
that period in respect to plant and machinery which
cost the company, even on its own figures, \$12,824,824.

From these figures it would appear to be obvious
that the Company's own statement, in its booklet
filed as Exhibit 329, can be accepted as accurate,
that is that the write up in 1930 included amounts
charged depreciation" -- that should be "charged to
depreciation" -- "that were not required and amounts
applied to betterments and repairs and charged to
profits creating an asset which was given effect to
when this revenue item was placed on the books.

The total assets created by charges to profit

"to have been \$15,179,238. This calculation, of course, is predicated on the accuracy of the appraisal of 1936. Neither Mr. Gordon nor Mr. Glasco would state that this appraisal did not indicate a fair value of the Company's assets. Mr. Glasco stated 'It should be reasonably close, but it is an insurance appraisal'.

When asked to state whether he would contend, if engaged on an arbitration on behalf of the Company, that it understated the value of the Company's assets, he declined to say that he would. Mr. Glasco stated as follows:

'BY MR. McRUER: Q. Coming back to the depreciated value of the property, Mr. Howson arrives at the figure of \$4,917,904? A. Yes.

Q. If the value today is \$22,000,000, then the difference is absorbed either by increment values or by writing --

A. By overdepreciation.

Q. By overdepreciation, or by charging betterments and repairs.

A. Equivalent to overdepreciation.

Q. But if replacement costs have dropped since 1920, and if this increment has, as you apparently put it, occurred since 1920, then there has been a large overdepreciation?

A. There has been overdepreciation based on the extent to which replacement costs have dropped and depending upon at what stage of the price cycle the company made their additions of \$16,000,000 between 1920 and 1936."

"to have been \$15,175,000. This calculation, of course, is predicated on the accuracy of the figures of 1936. Notwithstanding Mr. Gordon has not stated that this appraisal did not indicate a fair value of the Company's assets. Mr. Gordon stated 'It would be reasonably close, but it is a insurance appraisal'.

When asked to state whether he would contend, if engaged on an arbitration on behalf of the Company, that it understated the value of the Company's assets, he declined to say that he would. Mr. Gordon stated as follows:

'By Mr. Gordon: A. Coming back to the appraisal value of the property, Mr. Gordon arrives at the figure of \$4,317,904? A. Yes.

Q. If the value today is \$85,000,000, then the difference is absorbed either by increase in value or by writing --

A. By overdepreciation.

Q. By overdepreciation, or by changing betterments and repairs.

A. Continued overdepreciation.

Q. But if replacement costs have dropped since 1936, and if this is the case, as you suggest, put it, occurred since 1930, then there has been a. There has been overdepreciation based on the extent to which replacement costs have dropped depending upon what stage of the price and the company made the additions of \$15,000,000.

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Well, Mr. Glassco's figure of \$16,000,000 I think is out a bit there. We show actually what they did make between 1920 and 1936.

5 THE COMMISSIONER: I notice you yourself in these questions refer to this figure of \$4,917,000 as the depreciated value?

10 MR. MORUER: Yes. So that Mr. Glassco certainly admits the principle entirely on which I have worked out the problem since 1920, that is, if you start off with the values in 1920, deduct from them the decline in value since that appraisal was made, since these figures were charged into the books, then take the depreciation and any decline in values since the capital expenditures have been made, since 1920, and
15 deduct the difference from the value to-day, and that will show the amount by which the plant has been overdepreciated because if it is there to-day it is there. If the plant is worth \$21,000,000 to-day it is worth \$21,000,000, worth \$21,000,000 on to-day's basis.
20 Now, it is all very very difficult when you come to the exact amount. It would be extremely difficult, and we could argue it at length one way or another but testing it by what test we like we still find it comes out that the company has, to begin with, between
25 \$15,000,000 and \$17,000,000 that it has of profit -- I will put it this way, \$15,000,000 to \$17,000,000 profit over and above the profit shown in the books.

30 Now, the question is where did the profit come from? Did it come from writing off to depreciation greater sums than were necessary for the depreciation,

... We show actually what they did make out a bit there. ...

... I notice you yourself in these questions refer to this figure of \$4,317,000 as the ...

... So that Mr. Elmeso certainly admits the principle entirely on which I have worked out the problem since 1980, that is, if you start off with the value in 1980, deduct from that the depreciation and any decline in value since then, then take the figures were charged into the books, then take the depreciation and any decline in value since then capital expenditures have been made, since 1980, and deduct the difference from the value to-day, and that will show the amount by which the plant has been overdepreciated because if it is there to-day it is there. If the plant is worth \$21,000,000 to-day it is worth \$21,000,000, with \$12,000,000 in depreciation to-day, it is all very difficult when you come to the exact amount. It would be extremely difficult, and we could argue it at length one way or another but testing it by what test we like we still find it comes out that the company has, to begin with, between \$15,000,000 and \$17,000,000 that it has of profit -- I will put it this way, \$15,000,000 to \$17,000,000. ...

... the question is where did the profit come from? Did it come from writing off to depreciation ...

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or did it come from an increment in values? We have disposed of the increment in values pretty well by the decline that has taken place, but whichever way we have it they have it anyway. They have had, carrying on business in Canada, in addition to the dividends they have paid, in addition to the surpluses they built up which are shown on the ir books, they have in this increment in plant values, by whatever way it is obtained, \$15,000,000 to \$17,000,000 which may be added to the \$24,000,000 I dealt with this morning, and I say if a company does business in Canada --

MR. HEWARD: Excuse me, Mr. McRuer; your \$24,000,000 includes \$10,000,000, or \$9,800,000.

MR. GLASSCO: You start with the book value of the assets at \$18,000,000.

MR. McRUER: Yes, that is quite right; in arriving at the surplus that is taken into consideration, no doubt, but if a company carries on business in Canada for 20 years and conditions in Canada are such that it prospers and its plants become more valuable, and that it has this record, surely it ill becomes the company to come back to the consumers of Canada and say "go on subsidizing us to pay us a return on this capital investment that we have". That is the important part of it. The important part isn't whether it is exactly \$17,000,000 or \$14,000,000 or \$13,000,000 or what it is. It is important to the extent to which it has been made out of profits, but the important part is that they have \$17,000,000 in

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 may be added to the \$24,000,000 I dealt with this
 morning, and I say it's company does business in
 Canada --

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MR. HERARD: Excuse me, Mr. Acker: Your \$24,000,000
 includes \$10,000,000, or \$9,800,000.
 MR. GLASSCO: You start with the book value of
 the assets at \$18,000,000.

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MR. MONTGOMERY: Yes, that is quite right; in arriving
 at the surplus that is taken into consideration, no
 doubt, but if a company carries on business in
 Canada for 25 years and accumulates in Canada the surplus
 that it produces and its plants become more valuable
 and that it has this record, surely it will become
 the company to come back to the consumers of Canada
 and say "go on subsidizing us to pay us a return on
 this capital investment that we have". That is the
 important part of it. The important part isn't

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whether it is worth \$15,000,000 or \$14,000,000 or
 \$13,000,000 or \$12,000,000. It is important to the
 company to know it has been able to get \$17,000,000 in
 the important part is that they have \$17,000,000 in

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addition -- well, \$7,000,000 of which would be in addition to what is shown in the figures I gave this morning. Mr. Glasco is quite right in correcting me, \$10,000,000 of it was shown on the books.

5 THE COMMISSIONER: You were using the \$10,000,000 twice.

MR. McRUER: Yes, he was quite right.

10 " It is difficult without carefully kept records on behalf of the Company, to determine to what extent the depreciation written off has been more than adequate. The Company itself has stated that it is."

THE COMMISSIONER: Where are you reading from now?

MR. McRUER: The foot of page 179, my lord.

15 " In addition to this, the Company has charged out of profits, the betterments and repairs as already mentioned. To what extent these have really been capital expenditures it is impossible to determine, because of the way in which the records of the
20 Company have been kept.

It is, however, clear that, in addition to the profits shown on the books of the Company, there is a large sum, which may be called a secret reserve of profit, represented in plant and machinery. The extent of this sum, under the present
25 accounting methods of the Company can, at least, be approximately determined as indicated herein".

And that is what I have been endeavouring to determine.

30 "Exhibit 1233, a statement filed by Mr. Glasco on behalf of the Dominion Textile Company Limited, is

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110,000.00 of it was shown on the books.

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44. Modeling: Yes, he was out to right it.

be approximately determined as indicated herein".

"conclusive proof of the advantage that this Company has had during the past thirty years."

MR. HEWARD: Is that 1232?

THE COMMISSIONER: 1233.

MR. HEWARD: I think it should be 1232. That is the one which gives --

MR. McRUER: 9.12%?

MR. HEWARD: Yes, that is right, 1232.

MR. McRUER: Thank you.

"Accepting every allowance that is asked for on behalf of the Company, the average annual earnings of the invested capital, however produced"-- that is whether it is out of profits earned on the consumer's dollar or out of return on invested capital --

"--however produced, has amounted to 9.12%.

However, a large part of the invested capital is not capital invested by investors but capital that has been invested by consumers. Of the \$17,983,218.22 shown on page 3 of Exhibit 1232,

\$1,940,600.00"-- now, I am dealing with Mr. Glasco's figures --"\$1,940,600.00 was invested by the preferred stockholders, \$500,000.00 by the original subscribers to the syndicate, \$5,875,000.00 by subsequent subscribers for common stock and \$9,667,618.22 is profits earned from what has been referred to as a private power of taxation vested in the Company."

Now, I am dealing with the figures that Mr. Glasco gives us. We have, in addition to that, what we know from this morning that on the common stock, on the original investment, it paid 98.4% dividend, and it was

"conclusive proof of the advantage that this

Company has had during the past thirty years."

MR. HENRY: Is that 1882?

THE COMMISSIONER: 1882.

MR. HENRY: I think it should be 1882. That is the

one which gives --

MR. HENRY: 9.12.82

MR. HENRY: Yes, that is right, 1882.

MR. HENRY: That is

"Accepting every allowance that is asked for on

behalf of the Company, the average annual earnings

of the invested capital, however produced" -- that

is whether it is out of profits earned on the common

dollar or out of return on invested capital --

"-- however produced, has amounted to 9.12%.

However, a large part of the invested capital is

not capital invested by investors but capital

that has been invested by consumers. Of the

\$17,383,218.22 shown on page 3 of Exhibit 1882,

\$1,940,800.00 -- now, I am dealing with Mr. Glass

figures -- "\$1,940,800.00 was invested by the pro-cre-

stockholders, \$500,000.00 by the original subscribers

to the syndicate, \$5,875,000.00 by subsequent sub-

scribers for common stock and \$9,507,618.22 is

profits earned from what has been referred to as

private power of taxation vested in the Company."

Now, I am dealing with the figures in Exhibit 1882.

Give us, in addition to that, what we

find this morning that on the common stock, on the

original investment, it paid 32.14 dividend, and it

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after the payment of these dividends that this surplus capital was created.

5 "In addition to this, Mr. Glasco, in his statement, has claimed a loss for 1933 of \$614,683.36 when, in fact, that was incurred by a transfer from surplus of \$1,000,000.00 to investment account to cover losses that had been made on investments by the Company?"

10 Now, I cannot see by any stretch of the imagination how Mr. Glasco can contend that if you get profits in a textile company that you can, in a tariff inquiry, say "oh, but we made a loss of six hundred and some odd thousand dollars in investments in something else, that our investments in something else incurred a loss to us". We cannot certainly be asking the consumers to provide a subsidy for the company's speculations in other companies,--and I do not mean speculations in a reckless manner -- their investments in other companies, I will put it that way. I should not say speculations. 15 I think Mr. Gordon thought that was offensive and it probably is.

THE COMMISSIONER: You call it investments here.

MR. MORIER: I call it investments. I think that is a better term.

25 "It can hardly be contended that this is a loss attributable to the cotton business in Canada.

Further, Mr. Glasco has made no allowance for the secret inventory reserves or for the other secret reserves arising by reason of charging to operations amounts in excess of proper depreciation and amounts

...after the payment of these dividends that this
...new capital was created.

Further, Mr. Glusac has made no allowance for attributable to the cotton business in Canada. "It can hardly be contended that this is a loss

"for betterments and repairs which should have been capitalized."

THE COMMISSIONER: Those are two different things you are referring to there.

5 MR. McRUER: Yes, my lord. The latter is one I have been dealing with extensively, the \$17,000,000 or \$14,000,000, or whatever it may be.

10 Now, I have made another test to show how this company has been treated by the consumers, and that is this: I say assuming that they had paid 20% per annum on the \$500,000 that was invested in the common stock. I start off in 1905 and say "now, you pay all your bond interest, pay every body every cent you contracted to pay, pay your dividends on your preferred stock to
15 every last cent that you agreed to pay, and then pay these investors in the common stock 20% per annum". Now, I will be criticized that I am unduly generous, and I hope that nobody is, for a moment, going to take it that I said in this inquiry that 20% per annum was
20 a profit that investors ought to be entitled to expect in investing in a tariff protected industry, but it is an average of 20% per annum for 50 years that I am allowing them. Now, let us see what position that company would be in if they had used the subsidy given
25 to them by the consumers in that way.

" The evidence shows that had this Company not paid out such large sums in dividends on the common stock, the Company would have had abundant funds to finance all the operations of the Company
30 and put the Company in a position today of having

"for betterments and repairs which should have been capitalized."

THE COMMISSIONER: Those are two different things you are referring to there.

MR. BRYCE: Yes, my lord. The latter is one I have been dealing with extensively, the \$17,000,000 or \$14,000,000, or whatever it may be.

Now, I have made another test to show how this company has been treated by the consumers, and that is this: I say assuming that they had paid 30% per annum on the \$500,000 that was invested in the common stock.

I start off in 1905 and say "now, you pay all your bond interest, pay everybody every cent you contracted to pay, pay your dividends on your preferred stock to every last cent that you agreed to pay, and then pay these investors in the common stock 30% per annum."

Now, I will be criticized that I am unduly generous, and I hope that nobody is, for a moment, going to take it that I said in this inquiry that 30% per annum was a profit that investors ought to be entitled to expect is investing in a tariff protected industry, but it is an average of 30% per annum for 30 years that I am

allowing them. Now, let us see what position that company would be in if they had been paying 30% to them by the consumers in that way.

The witness then says that the company had paid out much larger sums in dividends on the common stock, the Company would have had abundant funds to finance all the investments of the company and that the Company is a business entity not having

"been so thoroughly well established by profits contributed by consumers of Canada that it would have been able to compete with very little or no protection.

5 It cannot be contended that if an investment bears interest at an average rate of 20% per annum continuously for thirty years that such a return is inadequate to one who invests in an industry receiving special privileges from the
10 Government of Canada.

The following table shows the position that Dominion Textile Company Limited would have been in had the Company paid all the bond interest according to its obligation, the preferred stock
15 dividends as required and a common stock dividend over a period of 30 years on the amount originally invested in the common stock at the rate of
20% per annum."

20 THE COMMISSIONER: That amount remained intact in 1922, did it not?

MR. McRUER: Well, the capital of the company was wrote up in 1922 as that, and I show in this statement they would never have needed to go on the market. They would have had so much money in their till
25 that they would not want any more money from investors at that time. Now, "net current assets as per books after deducting trade and operating liabilities" of the company show \$6,173,786.46. "Inventory not
30 shown", that is the secret reserve, we call it, \$1,360,096.00, making total current assets of

contributed by companies of Canada that it
have been able to compete with very little
difficulty.

It cannot be stated that in an interest
bearing interest at an average rate of 5% per
annum. It is interesting to note that the
return is inadequate for one who invests in a
industry receiving special privileges from the
Government of Canada.

The following table shows the position for
Bontatlon Real Estate Company Limited which is
is and the company paid all the bond interest
to the company. The company has
dividends as required and a company which
over a period of 30 years on the amount originally
invested in the common stock at the rate of
5% per annum.

The company has not amount remained in 1932
1932, did it not?
The capital of the company was
wrote up in 1932 as that, and I show in this statement
they would never have needed to go on the market.

that they would not want to have money from the
at that time. Now, "net" of the company is still
the company is still in the same position as
the company is still in the same position as
the company is still in the same position as

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\$7,553,882.46. "Investments in subsidiaries, \$7,681,263.84"; now, those are just as shown in the books. "Funds which would be available had dividends been paid on the common stock on the basis of 20% on original investment", adding simple interest at 3%; that should be in there, "adding simple interest at 3%." I have no doubt that worried Mr. Glasco as to how we arrived at that. Adding simple interest at 3%; that is, if they paid out \$100,000 in 1908 instead of \$250,000, 20% on \$500,000 would be \$100,000. They paid \$250,000. That would have left \$150,000 and I have allowed them interest at 3%. Now, they would have accumulated a fund of \$21,516,654.75 up to the present time. "The depreciated value of Buildings, Plant and Machinery as shown by the 1936 appraisal, including estimate for Head Office building, land and substructures \$22,183,633.00" Now, if my friend contends that that appraisal is two or three or four million dollars out I will allow it to him, but it leaves it that their assets at the present time would amount to \$53,915,434.05. Now, "Less cash received by Company on account of subscriptions"; I take out the cash that was subscribed by subscribers because I say you would never have needed to go on the market to sell stock.

THE COMMISSIONER: That is subscribed after 1922?

MR. McRUE: After 1922, yes, my lord, \$5,875,000 which would have left it that to-day the whole value of their asset would be \$53,040,434.05. Now then, they have certain liabilities and will pay them off.

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Q. Now, if we take out the cash that was subscribed by subscribers which would have left it that to-day the whole value of their assets would be \$30,000,000. Is that right?

A. Yes.

Q. And after that, after 1907, you say \$2,000,000? That is subscribed after 1907?

A. The commission: That is subscribed after 1907.

Q. Now, I say you would never know where he got on the market to sell stock.

A. Yes.

Q. I take out the cash that was subscribed by subscribers which would amount to \$8,915,484.06. Now, "less" but it leaves is the balance of the company's funds contents that that appraisal is two or three land and structures \$2,183,683.00. Now, if my appraisal, including estimate for Good Office building, \$1,000,000, they paid \$250,000. That would have left instead of \$250,000, 30% on \$250,000 would be at 3%; that is, if they paid out \$100,000 in 1908 how we arrived at that. Adding simple interest 3%." I have no doubt that worried Mr. Gifford as to that should be in there, "adding simple interest at original investment", adding simple interest at 3%; been paid on the common stock on the basis of 30% on books. "Funds which would be available had dividends

We will pay everybody off. We will say "here you are, here is your money, money we have saved; instead of paying 98% dividends on the original investment we have paid 20% and we are going to pay off our liabilities". We pay the bonds outstanding of \$4,457,000; we pay the preferred stock outstanding, we give them all their money, \$1,940,600. Mr. Gordon says we should redeem it at 110 instead of 100. We will give them 110.

THE COMMISSIONER: I think you are having the delight now of winding up the Dominion Textile Company.

MR. McRUER: That is it. I am just showing what bad financiers they are. Then we pay back those unfortunate members of the syndicate, pay them their \$500,000 they invested, and then we have left \$46,142,834.05. That is what the consumers -- they have paid this money, but it is what would have been done with it. We do not need to bother how it is distributed. This sets up how it is distributed on the other side, but there is a plant which is worth \$22,000,000 now. There is the fund that would have been created had they paid 20% instead of 98% on this original investment, and the net result is that -- "on the above basis the consumers of Canada have paid in profits sufficient to pay back to all investors - i.e. bondholders, preferred and common stock holders the whole of their investment - pay all the interest on the bonds, the dividends on the preferred stock and dividends on the common stock at the rate of 20% per annum

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THE COMMISSIONER: I think you are having the

delight now of winding up the Dominion Trust Co.

MR. McNEIL: That is it. I am just showing what

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have paid this money, but it is what would have been

done with it. We do not need to borrow how it is

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\$28,000,000 now. There is the fund that would have

been created had they paid 20% instead of 98% on this

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paid in profits sufficient to pay back to all

investors - i.e. bondholders, preferred and

common stock holders the whole of their invest-

ment - pay off the interest on the bonds, the

dividends on the preferred stock and the interest

on the common stock of the company and pay

"on the money actually invested, to pay for the entire buildings, plant and machinery, and to give the company a fund available for outside investment amounting to \$24,000,000, all in a period of thirty years."

THE COMMISSIONER: Your last figure is wrong, you have \$24,000,000.

MR. McRUER: No, it would be \$24,000,000 because the value of your plant to-day is \$22,183,000 according to the insurance appraisal. The fund that you have got is \$46,000,000 and we show now that you have got \$24,000,000 that you can go and invest in government bonds and draw interest on it. Now, the company in that way would not be able to come to the Government and say "now, look here, the only basis on which we can do business is the basis of the 1930 tariff, and that this is terrible". Well, you have got a tariff somewhere in the neighbourhood of 60% on rayon. They could not say "if you adjust the Japanese treaty it is going to knock us off our feet completely". I am pressing the consumer's case. Now, there is what the consumer has paid. There is what they would have had financed on that basis, and I don't think there can be any quarrel whatever with those figures. The only possible quarrel that my friend can put up is that this appraisal over-appraised the plant. If it has by \$4,000,000, I will say then he has \$20,000,000 to invest in outside investments instead of \$24,000,000.

MR. HEWARD: I have some other issues I can talk on, Mr. McRuér.

...the ...
...and to
...give the company a fund available for outside
...investment amounting to \$24,000,000, all in a
...period of thirty years."

THE COMMISSIONER: Your testimony is wrong, you
have \$24,000,000.

MR. WATSON: No, it would be \$24,000,000 because

...to the insurance companies. The fact that you have

...\$24,000,000 that you can go and invest in government

bonds and draw interest on it. Now, the company
in that way would not be able to come to the Government

and say "now, look here, the only basis on which we can
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this appraisal over-appraised the plant. It is

by \$4,000,000. I will say then he has \$20,000,000 to
invest in outside investments instead of \$24,000,000.

MR. WATSON: I have just said that I am not
...
...
...

THE COMMISSIONER: Well, we will adjourn for a few minutes.

-- The Commission adjourned for a short recess.

-- On resuming.

5 MR. McRUER: Now, I desire just before leaving the Dominion Textile Company for some time, and I have spent so long on them that they will say, or may be able to say with some justification they have been attacked, but it is a large company and comprises an amalgamation of 17 of the other companies and
10 I certainly do not want them to think that as far as I am concerned because I have spent some time on them that I have any special brief against them, or anything of that sort. I haven't. Just in respect to--

15 THE COMMISSIONER: You have only been dissembling your love.

MR. HEWARD: Conferring on us \$24,000,000 extra profits.

20 MR. McRUER: I have been promiscuous in my attentions. Just apropos of what I just said when the Commission adjourned for the intermission I wish to refer to page 20 of my friend, Mr. Heward's, brief at the foot of the page.

25 "It is submitted therefore that this statement establishes convincingly that the ratio of the earnings of Dominion Textile Company, Limited, to the value of the investment of that Company has been throughout the period since 1920 and is now so low as to be entirely inadequate, having in view
30 the risks inherent in manufacturing industries and

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that I have any special bias against them, or any-

thing of that sort. I haven't. Just in respect to--

THE COMMISSIONER: You have only been disassembling

your love.

MR. HEWITT: Counting on us \$25,000,000 extra

profits.

MR. McNEIL: I have been promissory in my

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been throughout the period since 1920 and is now

so low as to be entirely inadequate, having in view

the risks inherent in manufacturing industries and

"particularly in the textile industry where the principal raw material (raw cotton) is subject to such wide fluctuations in market price. As a guide in regard to the sufficiency or insufficiency of tariff protection, these earnings indicate that the existing protection afforded the textile industry is not sufficient to ensure a fair yield."

(page 14525 follows)

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principal raw material (raw cotton) is subject
to such wide fluctuations in market price. As a
guide in regard to the sufficiency or insufficiency
of tariff protection, these earnings indicate that
the existing protection afforded the textile
industry is not sufficient to ensure a fair yield."

(page 1432 follows)

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So there we are. I don't know what in the world we could have done for this Company in the past. It is really too bad if it finds itself in this position now that they have to really close our reference to it with the lamentation that it has not had enough in the past and that the Tariff protection is not sufficient now and that the consumers ought to be further taxed in view of the statement that I have just referred to. It has made its position very clear. The records of what the consumers have done for it are clear and they put forward what I think is a fallacious doctrine - that notwithstanding what you have done for us in the past, no matter how big and strong the child is, the bigger and stronger you make it the bigger the bottle you have got to give it, to put it in a sort of way because it takes more to give it a return on the money that the consumers have already provided for.

Now, so much for the Dominion Textile Company and in the absence of any further remarks I have to make about my friend's Brief I shall reserve until after he has presented his argument.

Now, Canadian Cottons Limited is the next largest cotton company doing business in the Dominion of Canada and has something of the same sort of history as the Dominion Textile Company. It was preceded by a company known as Canadian Coloured Cotton Mills,

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So there we are. I don't know what in the

would we could have done for this Company in the past

It is really too bad if it finds itself in this

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the consumers have already provided for.

Now, so much for the Dominion Textile Company

and in the absence of any further remarks I have

to make about my friend's brief I shall reserve until

after he has presented his argument.

Now, Canadian Cottons Limited is the next largest

cotton company doing business in the Dominion of

Canada and has a capital of \$1,000,000 and is

as the Dominion Textile Company. It has

in a company known as Dominion Coloured Cotton Mills,

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Limited.

MR. BRUNEAU: There is apparently a little confusion there. It has been assumed apparently that there was a new company in 1910 and there was a predecessor but there was only one company. I think you will find there was a change of name in 1910 and an increase in capital, but that is all. It is the same company all through.

MR. McRUER: There was a new Company incorporated.

MR. BRUNEAU: In 1892 the Company was incorporated under the name of Canadian Coloured Cotton Mills, Limited. In 1910 it shortened its name to Canadian Cottons, Limited, and increased its capital.

MR. McRUER: That was a new charter ---

MR. BRUNEAU: Increase of capital with a change in name.

MR. McRUER: It was a new charter.

MR. BRUNEAU: It was Supplementary Letters Patent.

MR. McRUER: Are you sure it was not a new charter?

MR. BRUNEAU: Supplementary Letters Patent changing the name and increasing the capital. The same company and the same ---

THE COMMISSIONER: You are sure of that?

MR. BRUNEAU: Yes.

THE COMMISSIONER: If it was Supplementary Letters Patent, it would be the same company.

MR. McRUER: I was under the impression from what we read from the Minute Book it was a new

1910

MR. BRADY: There is apparently a little con-
fusion there. It has been assumed apparently

that there was a change of name in 1910 and
a new company was formed at that time.

You will find there was a change of name in 1910 and
an increase in capital, but that is all. It is the
same company all through.

MR. MEMBER: There was a new company incorporated.
MR. BRADY: In 1908 the company was incorporated

under the name of Canadian Coloured Cotton Mills,
limited. In 1910 it shortened its name to Canadian
Cottons, limited, and increased its capital.

MR. MEMBER: That was a new charter ---
MR. BRADY: Increase of capital with a change
in name.

MR. MEMBER: It was a new charter.
MR. BRADY: It was supplementary letters patent.
MR. MEMBER: Are you sure it was not a new charter?

MR. BRADY: The name and increasing the capital. The
same company and the same ---

THE COMMISSIONER: You are sure of that?
MR. BRADY: Yes.

MR. MEMBER: It is the same company.
MR. BRADY: I was under the impression that
it was the same company.

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incorporation to take over the old company.

MR. BRUNEAU: I have the Minute Book at the hotel.
I will bring it tomorrow.

5 MR. McRUER: Bring it down so that we can make
sure what the Minute book says, to have our records
correct. "The Canadian Cottons Limited, was preceded
by a company known as Canadian Coloured Cotton Mills,
Limited, a company incorporated in 1892." That is
10 strictly correct, that the Company was incorporated
in 1892?

MR. BRUNEAU: That is right.

15 MR. McRUER: "The Company was a merger of seven
companies known as the Stormont Cotton Company
Limited, St. Croix Cotton Manufacturing Company
Limited, Canadian Cotton Manufacturing Company
Limited, Ontario Cotton Mills Company Limited,
American Cotton Mills Limited, Lybster Cotton
20 Manufacturing Company Limited, and Dundas Cotton
Company Limited. The assets of these companies
were acquired by the issue of bonds amounting
to \$2,000,000....."

25 Now, if there is anything that my friend can assist
me in respect to the original incorporation of this,
so that I might know how much of it was what I
might call bonus stock and how much was not. I don't
30 know---

MR. BRUNEAU: Perhaps it would assist me if you

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incorporation to take over the old company.

MR. BRUNNEN: I have the Minute Book at the ready.

I will bring it tomorrow.

MR. ACHUT: Bring it down so that we can make

sure what the Minute Book says, to have our records

correct. The Minute Book is in the office.

It is a good idea to have the Minute Book in the office.

limited, a company incorporated in 1921. That is

strictly correct, that the company was incorporated

in 1921.

MR. BRUNNEN: That is right.

MR. ACHUT: The company was a merger of seven

companies known as the Montreal Cotton Company

limited, St. John's Cotton Manufacturing Company

limited, Canadian Cotton Manufacturing Company

limited, (which is now in liquidation),

Montreal Cotton Mills limited, Eastern Cotton

Manufacturing Company limited, and London Cotton

Company limited. The assets of these companies

were acquired by the issue of bonds amounting

to \$1,000,000.

Now, if there is anything that my friend can assist

me in respect to the original incorporation of this,

so that I might know how much of it was what I

might call bonus stock and how much was not. I don't

know. I don't know if it was what I

would let me know what you mean by "bonus stock".

MR. McRUER: I mean stock issued as a bonus.

MR. B RUNEAU: I mean, for nothing or for consideration - water?

THE COMMISSIONER: Bonds---

MR. McRUER: In the amalgamation of these companies the same syndicate that brought them together got this common stock as a bonus and the company paid for the stock of the amalgamated companies. We were not able to find that out entirely. I certainly have got it traced down that they got some of it in that way.

"The assets of these companies were acquired by the issue of bonds amounting to \$2,000,000 and common stock amounting to \$2,600,000."

And I say to my friend frankly that I suspect from the records that the bond paid the shareholders of the former company and that the promoters got the \$2,600,000 in common stock. I don't know.

MR. BRUNEAU: I don't know that there is anything in it.

MR. McRUER: There is something in it because we traced some of it.

"The Bonds of the Canada Cotton Manufacturing Co. Limited, amounting to \$300,000 were assumed.

A complete history of the development of the above companies is not available, nor are details of the arrangements made for the acquisition of the companies by Canadian Coloured Cotton

would let me know what you mean by "bonne stock".

MR. McANULTY: I mean stock issued as a bonus.

MR. B. HOWARD: I mean, for nothing or for something

Stettin - 1918

MR. ROBERTS: In the emigration of these companies

common stock as a bonus and the company paid for the

stock of the amalgamated companies. We were not able

to find that out entirely. I certainly have not

it traced down that they got some of it in that way.

"The assets of these companies were copied

by the issue of bonds amounting to \$2,000,000

and common stock amounting to \$2,500,000.

the records that the bond paid the shareholders

of the former company and that the promoters of the

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REMARK: There is something in it because we

"The Bonds of the Canada Cotton Manufacturing Co."

amounting to \$500,000 were awarded.

above information is not available, not available

14529

Company Limited. It appears that the common stock, amounting to \$2,600,000 was issued to A.F. Gault and David Morrice in part payment of the properties mentioned and the \$2,000,000 of bonds were also issued to the same gentleman. In addition to this, a group of five men subscribed \$20,000 each, making a total of \$190000 for common stock."

Now, it sounds awfully like the pattern of the arrangement that went through for Dominion Textiles later on.

"It was provided that where the current assets of the merging companies did not reach the value that had been put on them in the agreements, the promoters were to return to Canadian Coloured Cottons Limited, the difference in bonds."

And that is what makes me think that the bonds paid for the current assets of the Company, because if they did not reach that vigour---

"\$240,000 worth of bonds were returned to the Company pursuant to this agreement."

So that they got some back. No common stock.

"We are unable from the records to as certain how much of the common stock that was issued really went to the promoters and how much, if any, was required to take up the shares of the merging companies. Mr. Dawson stated in evidence that he had no knowledge in regard to whom the Canadian Coloured Cottons dealt with

limited. It appears that the common stock
amounting to \$2,500,000 was issued to A.R. Bell
and David Morris in part payment of the property
mentioned and the \$2,000,000 of bonds were also
issued to the same gentleman. In addition to
this, a group of five men subscribed \$20,000 each,
making a total of \$100,000 for common stock."

Now, it sounds rather like the pattern of the arrangement
that was made with the American company.

"It was provided that where the current assets
of the margin companies did not reach the value
that had been put on them in the agreements,
the promoters were to return to Canadian Coloured
Cottons Limited, the difference in bonds."
and that is what makes me think that the bonds paid
for the current assets of the company, because if
they did not reach that figure---

"\$240,000 worth of bonds were returned to the
company pursuant to this agreement."

So that they got some back. No common stock.
"We are unable from the records to ascertain
how much of the common stock that was issued
really went to the promoters and how much,
if any, was required to take up the shares of the
margin companies. Mr. Dawson stated in
evidence that he had no knowledge in regard to
any of the Canadian Coloured Cottons deal with

at the time of the merger.

Mr. Howson, from a study of the Minute Book of the Canada Cotton Manufacturing Company Limited, has given evidence that there appears to have been bonus stock issued in respect to the acquisition of this Company of \$250,000."

MR. BRUNEAU: I think that is just the place where perhaps I can help a little and accept the kind invitation of my friend. Mr. McRuer made a calculation that the shareholders Canada Cotton had received \$800,000, and that this Company had been set up at a value of \$1,000,000 ---

THE COMMISSIONER: Where is the \$800,000 referred to?

MR. BRUNEAU: That is the way he makes up this company's stock of \$250,000. He says you set this Company up on your book at \$1,050,000, and shareholders of Canada Cottons only got \$800,000. So he says the rest must have been bonus. Now, the Minute book is open which Mr. Howson looked at, is open before me and I see all that the shareholders got in cash was \$565,000, and not \$800,000, so that it would look at first sight even worse, but I suppose that Mr. Howson has taken properly into consideration the fact that we assumed bonds to the value of \$300,000.

MR. McRUER: That would be right. That brings it up.

at the time of the merger.

Mr. Brown: I am sorry to hear that.

book of the Canada Cotton Manufacturing Company

Limited, has given evidence that there appears

to have been some stock issued in respect to the

acquisition of this Company of \$500,000.

Mr. Brown: I think that is true.

where perhaps I can help a little and accept the

kind invitation of my friend, Mr. McKenney was a

calculation that the shareholders Canada Cotton had

received \$500,000, and that this Company had been

set up at a value of \$1,000,000 ---

THE COMMISSIONER: There is the \$500,000 referred

Mr. Brown: That is the way he makes up this

company's stock of \$250,000. He says you set this

company up on your book at \$1,000,000, and share-

holders of Canada Cotton only got \$500,000.

So he says the rest must have been paid.

Now, the Minute book is open which Mr. Brown looked at,

is open before me and I see all that the shareholders

got in cash was \$250,000, and not \$500,000, so

that it would look at first sight even worse, but I

suppose that Mr. Brown has taken properly into

consideration the fact that we assumed bonds to the

value of \$500,000.

Mr. Brown: That would be right. These figures

MR. BRUNEAU: That brings it up to \$865,000.

But if he had gone a little further to the next paragraph. That is unfortunately where the figures ceased and I suppose Mr. Howson just looked at the figures, but the next paragraph says that the purchasers further agree to pay and discharge as the same become due all debts, promissory notes, bills of exchange.....and save vendors harmless therefrom and from all liabilities, endorsements and otherwise discounted by the vendors with any bank. While I have no record of what is and I can have only four months of balance sheet, I see that those liabilities appear at \$476,000.

MR. McRUR: Yes, but there would be current assets against it.

MR. BRUNEAU: That is what they are acquiring.

MR. McRUR: They acquire current assets and liabilities.

MR. BRUNEAU: If Mr. Howson figures our assumption of the bonds as the consideration we gave him, the assumption of the liabilities is exactly on the same footing.

MR. McRUR: Not where you take over current assets.

MR. BRUNEAU: What this Company paid was \$565,000 and they took over \$300,000 of bonds and made themselves liable and they assumed and paid \$475,000 of liabilities. Now, that is ---

MR. McRUR: No, but they got current assets for

MR. HANSEN: That brings it up to \$385,000.

But if he had gone a little farther to the east

its part be meritorious as long as it is,....

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Abstract

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of the funds as the consideration we gave him.

and no violence at all intended on the part of the

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that.

MR. BRUNEAU: I just draw that to the attention
of the Commissioner.

THE COMMISSIONER: What are the current assets you
refer to?

MR. McRUER: They represent stock in trade and
bills receivable and all that sort of thing.

MR. BRUNEAU: Of course, but there is total consideration
of \$1,350,000.

THE COMMISSIONER: I will tell you, Mr. Bruneau,
you can look into this and if you find by the books
that there is anything that you can establish to
be different from this statement that Mr. McRuer
establishes you can come to it later on.

MR. McRUER: I do not dwell on it ---

THE COMMISSIONER: I am sure if you discuss this
with Mr. McRuer, ---

MR. BRUNEAU: I am sure if he reflects on it he
will see---

MR. McRUER: I will be glad to go over the Minute
Book because I would have liked to have got the Minute
Book of the other companies, I would have liked to
have got the records of the Syndicate. It did seem
to me that the Company ought to have had records
that would have told us whether the common stock
was issued to the Syndicate as a bonus or whether it
was issued to take up assets, how it was done. But

MR. BRYDIE: I just draw that to the attention

MR. BRYDIE: They represent stock in these and

bill's receivable and all that sort of thing.

MR. BRYDIE: Of course, but there is total consoli-

ation of \$1,350,000.

You can look into this and if you find by the books

that there is anything that you can establish to

be different from this statement that Mr. Meyer

established you can come to it later on.

MR. MEYER: I do not dwell on it ---

THE COMMISSIONER: I am sure if you discuss this

with Mr. Meyer, ---

MR. BRYDIE: I am sure it be reflected on it be

MR. MEYER: I will be glad to go over the Minute

Book because I would have liked to have got the Minute

Book of the other companies, I would have liked to

have got the records of the syndicate. It did seem

to me that the Company ought to have had records

and issued to the syndicate as a bonus or whether it

was issued to take up assets, now it was done, but

I will be very glad to look over the Minute Book again because I don't say any more about it than what I have said here and I state it is not clear and I would not ask the Commission to make a finding that it was bonus stock issued because we have not the evidence.

"If bonus stock was issued in respect to this Company, it is not improbable that bonus stock was issued in the acquisition of the other companies. In considering the dividend record of the Canadian Coloured Cotton Mills Limited, it is extremely important to know for what the common stock was issued, but whether or not anyone in the employ of the present company has this knowledge we have not been able to obtain it for the benefit of the Commission."

Now, the dividends paid on the common stock were, as we will see -

"1892 4 1/2%

"1893 3%

"1898 2%

" 1899 4%

"1900 4%

"1901 4%

"1902 4%

"1903 4%

"1905 2% "

Now, your lordship will see the importance of whether those were dividends paid on money that was actually invested by Gault and Morrice and their associates

I will be very glad to look over the minute book again
because I don't say any more about it than what I
have said here and I state it is not clear and I could
not ask the Commission to make a finding that it was
bonus stock issued because we have not the evidence.
"If bonus stock was issued in respect to this
company, it is not probable that bonus stock
was issued in the acquisition of the other
companies. In considering the dividend record
of the Canadian Coloured Cotton Mills Limited,
it is extremely important to know for what the
common stock was issued, but whether or not
anyone in the employ of the present company
has this knowledge we have not been able to
obtain it for the benefit of the Commission.
Now, the dividends paid on the common stock were,
as we will see -

1924	1925
3%	1926
3%	1927
3%	1928
4%	1929
4%	1930
4%	1931
4%	1932
4%	1933
4%	1934
4%	1935

Now, your Honor, all we can determine of course
from the evidence will be that the company
has not paid dividends for the last several years

invested by Gault and Morrice and their associates
or whether dividends paid just on this common stock
that had been created in the amalgamation.

5 THE COMMISSIONER: You stopped your quotation
at 1905.

MR. McRUER: I am turning over the page.

"1906 3 %

"1907 4%

10 "1908 4%

"1909 4%

"1910 1%"

"The surplus, by 1910, amounted to \$1,673,387.63."

15 Now, that is just at that period when we recollect
the tariff protection they had.

"Canadian Cottons Limited, was incorporated in
1910 with a capitalization of \$8,000,000 consisting
of ---"

20 My friend says that was done by Supplementary Letters
Patent, increasing the capitalization.

THE COMMISSIONER: The capital then was increased
to \$8,000,000.

MR. McRUER: Yes, my lord.

25 "....consisting of 6% non-cumulative preferred
stock, \$4,500,000, common stock \$3,500,000.

Preferred stock issued amounted to \$3,575,000
and common stock to \$2,715,500. At this time

30 the Company acquired the Gibson Cotton Mill
Company Limited and the Mount Royal Spinning

invested by fault and service and their associates
or whether dividends paid just on this common stock
that had been created in the amalgamation.

THE COMMISSIONER: You stopped your question

11 1907

MR. MONTGOMERY: I am turning over the page.

"1906 3 2

"1907 4 4

"1907 4 4

"1908 4 4

"1910 1 1

"The surplus, by 1910, amounted to \$1,875,287.88.
Now, that is just at that period when we received
the tariff protection they had.

"Canadian Cottons Limited, was incorporated in
1910 with a capitalization of \$5,000,000 consisting
of ---"

My friend says that was done by an imaginary increase
in the capitalization.

THE COMMISSIONER: The capital then was increased

to \$5,000,000.

MR. MONTGOMERY: Yes, my lord.

"...consisting of 25 non-voting shares preferred

stock, \$4,800,000, common stock \$2,200,000.

Preferred stock issued amounted to \$3,975,000

and common stock to \$4,715,000. At that time

the company was in a position to pay dividends

and was not in a position to pay dividends

Company Limited, which was subsequently leased to Dominion Textile Company Limited and sold to it in 1920."

5 We have the same process going on here as we had with the Dominion Textile Company and that is the bringing together of these companies that had otherwise been under independent management and had been competing with one another into one company. That would in the process eliminate competition between them.

10 "The merger of these companies was put through by the issue to the shareholders of Canadian Coloured Cotton Mills Limited, of \$2,025,000 of preferred stock in return for the common stock held by them of Canadian Coloured Mills Limited, amounting to \$2,700,000."

15 THE COMMISSIONER: I am afraid we are getting confused there. If there was a merger, what was it merged into?

20 MR. BRUNEAU: One set of shareholders gave up some of their shares to Syndicate who redistributed it among the shareholders of the Company.

MR. McRUER: Just look up the evidence.

25 THE COMMISSIONER: When Mr. McRuer says "The merger of these companies was put through....." you just mean--

MR. BRUNEAU: They took over two companies, my lord.

THE COMMISSIONER: Along comes the Gibson Cotton Mill Company and the Mount Royal Spinning Company.

30 Were these two companies merged?

Company Limited, which was subsequently merged
so Dominion Textile Company Limited and sold to

it in 1925.

to have the same process going on here as we had with
the Dominion Textile Company and that is the bringing
together of these companies that had otherwise been
under independent management and had been competing
with one another into one company. That would

in the process eliminate competition between them.

"The merger of these companies was put

through by the issue to the shareholders

of \$3,025,000 of preferred stock in return for

the common stock held by them of Canadian Coloured
Kills Limited, amounting to \$3,700,000."

THE COMMISSIONER: I am afraid we are getting

confused there. It there was a merger, what was

it merged into?

MR. BRUNEAU: One set of shareholders gave up

some of their shares to syndicate who redistributed

it among the shareholders of the company.

MR. McNEIL: Just look up the evidence.

THE COMMISSIONER: When Mr. McNeil says "the merger

of these companies was put through...." you just mean

MR. BRUNEAU: They took over two companies, my lord.

THE COMMISSIONER: Along comes the Gibson Cotton

and company and the result is a new company.

and then the result is a new company.

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MR. BRUNEAU: They were bought out. They bought out the Gibson Company for \$800,000 and the Mount Royal they paid the sum of \$2,357,000, I think. Partly ---

THE COMMISSIONER: And those two companies disappear then?

MR. BRUNEAU: Yes.

MR. McRUER: Well, it goes further than that.

At this time there was preferred stock issued to the holders of common stock of Canadian Cottons. The shareholders of Canadian Coloured Cotton Mills, Limited, received preferred stock.

THE COMMISSIONER: In return for the common stock of the Canadian Coloured Cotton Mills.

MR. McRUER: Yes, and \$1,000,000 of preferred stock was underwritten by a syndicate for \$1,000,000 and \$2,000,000 of common stock was issued as a bonus for the sale of the preferred stock; for the acquisition of the Mount Royal Spinning Company Limited, there was issued \$1,100,000 in bonds, \$550,000 preferred stock and \$715,500 common stock; and for the acquisition of the Gibson Mill, \$700,000 in bonds was issued, making a total capitalization, when the merger was complete, of \$3,650,000 in bonds, \$3,575,000 preferred stock and \$2,715,500 common stock. \$1,850,000 of the bonds outstanding were bonds that had been assumed and which had been outstanding against the assets of the Canadian Coloured Cotton Mills, Limited,

Q. Now, they were bought out. They bought out the Gibson Company for \$200,000 and the amount they paid the sum of \$2,327,000, I think.

Q. Now, the Commission: And those two companies disappear then? A. Yes.

Q. Now, at this time there was preferred stock issued to the holders of common stock of Canadian Cotton Mills. The new holders of Canadian Cotton Mills, limited, received preferred stock.

Q. Now, Commission: In return for the common stock of the Canadian Cotton Mills.

Q. Now, Yes, and \$1,000,000 of preferred stock was underwritten by a syndicate for \$1,000,000 and \$2,000,000 of common stock was issued as a bonus.

Q. Now, at the time of the merger, the new capital of the Royal Canadian Company Limited, there was issued \$1,100,000 in bonds, \$200,000 preferred stock and \$1,000,000 in common stock. The new capital of the Gibson Mills, \$700,000 in bonds was issued,

making a total capitalization, when the merger was completed, of \$2,800,000 in bonds, \$2,000,000 in common stock and \$1,000,000 in preferred stock. The total capitalization was \$5,800,000.

Q. Now, the bonds outstanding were bonds that had been issued by the Gibson Mills and the Canadian Cotton Mills.

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Now, is not that a correct resume?

MR. BRUNEAU: Yes, the only thing depends what you mean by \$2,000,000 of common stock. All the details are quite right. Depends e--

MR. McRUER: Well, it was not sold.

MR. BRUNEAU: I would say it was not bonus stock, in the sense of what some of the public understands by it - that is, watered stock. It was fully paid stock.

MR. McRUER: It was issued as fully paid stock.

MR. BRUNEAU: It was fully paid stock. It was given up by one group of shareholders to be redistributed to shareholders as a whole.

MR. McRUER: But no new cash brought in.

MR. BRUNEAU: The Company did not issue \$2,000,000 of new shares and hand them out to the people who were subscribing a million. That was \$2,000,000 fully paid up capital stock which was given up by the old shareholders entitled to it to those among themselves who subscribed this new million dollars.

MR. McRUER: All the Company got was \$1,000,000 for preferred stock and the issue of common stock was as a bonus on the preferred stock.

MR. BRUNEAU: But not from the Company, from the holders of these shares. You will see that if you will just look at the Company's set-up as you have given it - \$2,700,000 and surplus \$1,673,000, that makes \$4,373,000.

1887

Now, is not that a correct resume?

MR. BRUNEAU: Yes, the only thing depends what you

mean by \$2,000,000 of common stock. All the details

MR. MONTGOMERY: Well, it was not sold.

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MR. MONTGOMERY: It was issued as fully paid stock.

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given up by one group of shareholders to be redi-

tributed to shareholders as a whole.

MR. MONTGOMERY: But no new cash brought in.

MR. BRUNEAU: The Company did not issue \$2,000,000

of new shares and hand them out to the people who

were subscribing a million. That was \$1,000,000

fully paid up capital stock which was given up by the

old shareholders entitled to it to those among

themselves who subscribed this new million dollars.

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for preferred stock and the issue of common stock

was as a bonus on the preferred stock.

MR. BRUNEAU: But not from the Company, from the

holders of these shares. You will see that if you

will look at the Company's set-up as you have

given it - \$1,000,000 and the \$1,000,000

that was \$2,000,000.

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15

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14538

MR. McRUER: Yes, quite.

MR. BRUNEAU: Now, the Company gets in real assets \$1,000,000, real money.

5 THE COMMISSIONER: That is from the Syndicate, you mean?

10 MR. BRUNEAU: Yes, from the Syndicate, but it included really all the shareholders who cared to come in. Gets \$1,000,000 in cash and gets \$1,255,000 in perfectly good assets from the Mount Royal Spinning Company, which are so good that they are sold at a profit later.

15 MR. McRUER: No, no, it was really a stock bonus.

20 THE COMMISSIONER: If you are right, there is a mis-statement here in Mr. McRuer's Brief because he says very plainly all preferred stock was under-written by a syndicate for \$1,000,000.

MR. McRUER: That is right.

THE COMMISSIONER: And \$2,000,000 of common stock was issued as a bonus for the sale of the preferred stock.

25 MR. BRUNEAU: Now, it depends on how you understand it.

THE COMMISSIONER: Is that right as it is put there?

30 MR. BRUNEAU: That stock was not stock which was worthless or watered, it was fully paid-up stock.

MR. McRUER: Yes, but as against it you say there

MR. BRIDGES: Yes, quite.

MR. BRIDGES: Now, the company gets in real assets

\$1,000,000, real money.

THE COMMISSIONER: That is from the syndicate,

MR. BRIDGES: Yes, from the syndicate, but it

included really all the shareholders who came to

come in. Gets \$1,000,000 in cash and gets \$1,000,000

in perfectly good assets from the Mount Royal spinning

company, which are so good that they are sold at a

profit later.

MR. MORTIMER: No, no, it was really a stock

bonus.

THE COMMISSIONER: If you are right, there is a

mis-statement here in Mr. Mortimer's brief because he

says very plainly all preferred stock was under-

written by a syndicate for \$1,000,000.

MR. MORTIMER: That is right.

THE COMMISSIONER: And \$2,000,000 of common stock

was issued as a bonus for the sale of the preferred

stock.

MR. MORTIMER: That is correct, but it doesn't mean that

the stock is

U: That stock was not stock which

was watered or watered, it was fully paid-up stock.

MR. MORTIMER: Yes, but as against it you say that

14539

was assets. It was in the nature of a stock bonus.

MR. BRUNEAU: You started out with \$4,373,000 in your Balance Sheet. You add \$1,000,000 of money and you add \$1,265,000 of real assets taken for shares, so that at the end of the operation you had \$6,638,000. Now, that would be if we issued watered or bonus stock to any extent, when our balance sheet at the end should show that much larger, but what does it show? It shows we have exactly that much on hand and not a cent more and the reason is that the common stock was not issued by the Company to this Syndicate; it was turned over to the Syndicate by the owners of that stock.

THE COMMISSIONER: That is not what this statement is here.

MR. BRUNEAU: The statement I am sure is not intended to be inaccurate, because in one respect ---

THE COMMISSIONER: No, the statement says plainly that, "\$2,000,000 of common stock was issued as a bonus or was handed over by those who already owned it, but was issued as a bonus.

MR. BRUNEAU: \$2,000,000 was issued in this sense: There was a surplus account of \$1,673,000. \$1,325,000 was issued against that to the Syndicate. Who did that belong to? It belonged to the shareholders of the Company.

MR. McRUER: It was in the nature of a stock bonus.

1911

was assets. It was in the nature of a stock bonus.

MR. BRYON: You started out with \$4,375,000

in your balance sheet. You add \$1,000,000 of money

and you add \$1,325,000 of real assets taken for shares

so that at the end of the operation you had \$6,685,000

Now, that would be if we issued watered or bonus

stock to any extent, when our balance sheet at the

end should show that much larger, but what does it

show? It shows we have exactly that much on hand

and not a cent more and the reason is that the so-called

stock was not issued by the company to this syndicate;

it was turned over to the syndicate by the owners

of that stock.

THE COMMISSIONER: That is not what this statement

is here.

MR. BRYON: The statement I am sure is not

intended to be inaccurate, because in one respect ---

the statement is, we have not yet issued

any stock, but we have issued a bonus

bonus or was handed over by those who already owned

it, but was issued as a bonus.

MR. BRYON: \$2,000,000 was issued in this

sense: There was a surplus account of \$1,375,000.

\$1,325,000 was issued against that to the syndicate.

Who did that belong to? It belonged to the

shareholders of the company.

MR. BRYON: It was in the nature of a stock

bonus.

MR. BRUNEAU: It was fully paid stock because it was stock dividends - that is what I would call it.

5 MR. McRUER: You can call it stock dividends or anything you like. It was issued and no cash came into the company or equivalent asset for these shares.

10 MR. BRUNEAU: If you have a surplus on hand and you issue capital stock to the exactly amount of the surplus, there is a difference between that and watered stock. That is what is called a stock dividend because the money is there. That is the difference. I mean, the money was all there and we did not add a cent of water to the company.

15 MR. McRUER: This statement is taken from a statement that was published by the Company itself and produced by Mr. Dawson. There was a statement arranged for the Prospectus offering bonds in London, and I have taken it carefully from that. I asked 20 Mr. Dawson for the history of his company and this is what he produced to me as the history of the company and it is produced at page 6044 of the Evidence.

25 MR. BRUNEAU: All I want to make clear - no doubt the Company has used the terms loosely itself, my lord - but I am not quite clear as to what we should call a stock bonus. Perhaps we may be only quarrelling about words.

30 THE COMMISSIONER: You mean to say whatever stock was issued was issued for a consideration in addition

MR. BROWN: It was fully paid stock because it was stock dividends - that is what I would call it.

MR. BROWN: You can call it stock dividends or anything you like. It was issued and no cash

came into the company or equivalent asset for these

MR. BROWN: If you have a surplus on hand and you issue capital stock to the exact amount of the surplus, there is a difference between that and what is called a stock dividend.

That is the difference. Because the money is there. I mean, the money was all there and we did not take a cent of water to the company.

MR. BROWN: This statement is taken from a statement that was published by the company itself and produced by Mr. Dawson. There was a statement made by the company that it was a stock dividend and I have taken it carefully from that. I asked Mr. Dawson for the history of his company and this is what he produced to me as the history of the company and it is produced at page 6044 of the evidence.

MR. BROWN: All I want to make clear -

MR. BROWN: I want to make clear that I am not saying that it was a stock dividend. I am saying that it was a stock dividend and that it was a stock dividend.

THE COURT: You mean to say whatever stock was issued was issued as a stock dividend?

to the mere fact of an individual subscribing for preferred shares.

5 MR. BRUNEAU: You will see, my lord, that it was a redistribution between the shareholders. The old common stock shares, \$2,000,000 were receiving \$2,000,000 and \$2,500,000 of preferred. So that they turned over to the Syndicate the difference of \$625,000. The Syndicate also received from the Company and it was issued to them - and in that respect there is a sense in which it is quite true what my learned friend says - but the Syndicate got from the Company \$1,325,000 of the surplus of the Company and they got that as capital stock fully paid.

10 THE COMMISSIONER: Who were the Syndicate?

MR. BRUNEAU: The Syndicate were ---

15 THE COMMISSIONER: I mean, were they all shareholders?

20 MR. BRUNEAU: The Syndicate acted for all shareholders.

THE COMMISSIONER: They were only trustees?

MR. BRUNEAU: Yes.

25 THE COMMISSIONER: They were not like shareholders in the Textile Company?

MR. BRUNEAU: No.

MR. McRUER: Was the Syndicate making an independent profit on the deal?

30 MR. BRUNEAU: No independent profits made on the deal. The real need for it is this---

to the rate fact of a individual subscribing for

DR. BREWSTER: You will see, my friend, that it was

a redistribution between the shareholders. The

\$2,000,000 and \$2,500,000 of preferred stock.

Copyright and it was issued to them - this is true

respect there is a sense in which it is quite true

What my friend heard? - says - but she says she

Company and they got that as capital stock fully paid.

THE COURT REPLIED: They were not like Marshalsburg

MR. MORRIS: Was the hydraulic making an improvement

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THE COMMISSIONER: That is the whole point.

I take the word "syndicate" meant as in the case of the Dominion Textile Company.

5 MR. BRUNEAU: No, this was reorganization of company, imposed on the company by the fact of its financial position because they owed the banks---

THE COMMISSIONER: This Syndicate, according to you, was merely a body of trustees?

10 MR. BRUNEAU: Yes, distributing ---

THE COMMISSIONER: I think you had better clarify that and come back to it. I am afraid we are losing time now. You are indicating that you do not agree with the way the case is stated and I think you had better let it go and get it into more definite form.

15 MR. McRUER: The fact is, at any rate, that in respect to the common stock that was issued there was no additional capital brought into the business. However, I will take that up with Mr. Howson as soon as he is available because he went over this carefully with me for the purpose, as far as we could get from the records, what the transaction was.

20 "Through the exchange of common stock held by the shareholders of Canadian Coloured Cotton Mills, Limited, for preferred stock in the new Company, a capital surplus of \$675,000 was created. This, together with a charge of \$1,325,000 to the surplus of the old company

25

30

14442

THE COMMISSIONER: That is the whole point.

I take the word "synthetic" meant as in the case of
the Dominion Textile Company.

MR. BRIDG: No, this was reorganization of
company, imposed on the company by the fact of its
financial position because they owed the bank---
THE COMMISSIONER: This synthetic, according to

you, was merely a body of trustees?

MR. BRIDG: Yes, distributed ---

THE COMMISSIONER: I think you had better clarify
that and come back to it. I am afraid we are losing

time now. You are indicating that you do not

agree with the way the case is stated and I think

you had better let it go and get it into more definite
form.

MR. BRIDG: The fact is, at any rate, that in

respect to the common stock that was issued there
was no additional capital brought into the business.

However, I will take that up with Mr. Brown as

soon as he is available because he went over this

carefully with me for the purpose, as far as we could

get from the records, what the transaction was.

--- exchange of common stock held by

the shareholders of Canadian Coloured Cotton

--- the records show in the

--- a capital of \$1,000,000

--- the records show a capital of \$1,000,000

--- the records show a capital of \$1,000,000

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off-set the par value of the common stock...."

That is the point Mr. Bruneau was making that there was the a surplus of \$1,325,000 as shown on page 187, and the common stock was issued as against that to that extent, and then the exchange of the common stock held by the shareholders of Canadian Coloured Cottons Limited, for preferred stock in the new company created a capital surplus of \$675,000. Those two were capitalized and \$2,000,000 worth of stock issued against it. I think that is correct.

MR. BRUNEAU: I do not think there is any substantial difference between us.

MR. McRUER: What I would like to get more information on, if it could possibly/had, and that is, what the original syndicate got out of the deal in 1892. Whether anything ever paid for the common stock.

MR. BRUNEAU: I am afraid if we had known you would have called for these documents of 1892 we would have kept them very carefully. We have one. I may say we found a lot of this material that is turning up in an old warehouse. We have not the space ---

MR. McRUER: "This, together with a charge of \$1,325,000 to the surplus of the old company off-set the par value of the common stock and carried into the new company an undivided surplus of \$348,387.63. The net effect of this was to capitalize the surplus that had accrued in the

1885

off-set the par value of the common stock....

that is the point Mr. Brown had was making that there

was the surplus of \$1,325,000 as shown on page

187, and the common stock was issued as against that

to that extent, and then the exchange of the common

stock held by the shareholders of Canadian Coloured

Colours Limited, for preferred stock in the new company

created a capital surplus of \$95,000. There was two

were capitalized and \$5,000,000 worth of stock issued

against it. I think that is correct.

MR. BROWN: I do not think there is any

substantial difference between us.

MR. McNEIL: What I would like to get more into

is

question on, if it could possibly be, and that is,

what the original syndicate got out of the deal in

1885.

1885.

MR. BROWN: I am afraid if we had known you would

have called for these documents of 1885 we would have

kept them very carefully. We have one. I may say

we found a lot of this material that is turning up

in an old warehouse. We have not the space ---

MR. McNEIL: "This, together with a cheque

of \$1,325,000 to the surplus of the old company

off-set the par value of the common stock and

surplus have the new company an undivided surplus

of \$1,325,000. The surplus of the old company

Canadian Coloured Cotton Mills, Limited, to the extent of \$1,325,000, and was, in reality, the same effect as if a stock bonus had been issued to that amount."

THE COMMISSIONER: You are back to where your paths divide again.

MR. McRUER: It might be said a stock dividend instead of a stock bonus.

MR. BRUNEAU: All I meant, it was not water thrown out.

MR. McRUER: We have not said that it was. I think thee dost protest too much.

THE COMMISSIONER: It is really a stock dividend.

MR. McRUER: It is a stock dividend, we called it a stock bonus which was issued to that amount. It was a stock dividend.

MR. BRUNEAU: Bonus in the Latin means Good.

The ---

MR. McRUER: Well, it was good.

"The situation when Canadian Cottons, Limited, started business in 1910....."

Of course, when we refer to that it is with the qualification Mr. Bruneau has given us, it was not a new company, it was a reorganization of the old company.

"....was that all the common stock except

\$715,500 was obviously bonus stock...."

Well, I say "bonus stock," stock dividends it should be.

1934

Canadian Coloured Cotton Mills, Limited, to the
extent of \$1,325,000, and was, in reality, the same
effect as if a stock bonus had been issued to the

amount."

THE COMMISSIONER: You are back to where your partner
divido again.

MR. McHUGH: It might be said a stock dividend

instead of a stock bonus.

MR. BRUNEAU: All I meant, it was not water into

we have not said just it was. I

think there does not protest too much.

THE COMMISSIONER: It is really a stock dividend.

MR. McHUGH: It is a stock dividend, we called it

a stock bonus which was issued to that amount. It

was a stock dividend.

MR. BRUNEAU: Bonus in the Latin means good.

The ---

MR. McHUGH: Well, it was good.

"The situation when Canadian Cottons, Limited,

started business in 1910....."

Of course, when we refer to that it is with the quali-

tication Mr. Brunneau has given us, it was not a new

company, it was a reorganization of the old company.

"...was that all the common stock except

\$100,000 was obviously bonus stock....."

well, I am saying stock, stock dividends is another

"....and the preferred stock that had been exchanged for common stock would be bonus stock to the extent that the common stock for which it had been exchanged was originally bonus stock. Clear information on this is not available."

THE COMMISSIONER: What is that you say?

MR. McRUER: That is preferred stock of Canadian Cottons, which was exchanged for common stock in 1910, would be bonus stock to the extent that the original stock issued in 1892 was bonus stock.

MR. BRUNEAU: I think bonus stock was unknown in 1892.

MR. McRUER: No, they knew a lot of things in 1892.

"In 1930 the Company purchased a controlling interest in the Cornwall and York Cotton Mills, Limited, of 2,709 shares by issuing \$107,300 in bonds and \$88,500 in preferred stock." Now, that brings in one more company into the control of this Company.

"Exhibit 917, page 5, shows that from 1892 to 1936 the total net revenue available for shareholders earned by the Company, according to the Company's records, amounted to \$15,360,630.61, of which there was paid out in dividends \$9,778,737.50, while the Company provided, in the meantime for:

Depreciation charged to operations,

"...and the preferred stock that had been ex-
changed for common stock was in some cases
to the extent that the common stock for which it
had been exchanged was originally common stock.
Clear information on this is not available."

The Commission: That is that you say?

MR. MONTGOMERY: That is preferred stock of Canadian
Corporation, which was exchanged for common stock in
1910, would be common stock to the extent that the
original stock issued in 1902 was common stock.
MR. MONTGOMERY: I think common stock was common

MR. MONTGOMERY: No, they knew a lot of things in

to have the highest revenue, I suppose

to have the highest revenue, I suppose

in bonds and \$25,000 in preferred stock."

Now, that brings in one more company into the

control of this company.

to have the highest revenue, I suppose

to have the highest revenue, I suppose

to have the highest revenue, I suppose

to have the highest revenue, I suppose

to have the highest revenue, I suppose

to have the highest revenue, I suppose

to have the highest revenue, I suppose

\$12,625,938.98.

Repairs and improvements charged to operations,

\$9,401,626.01.

5 Mr. Howson has prepared a statement which is a
summary of the earnings of the Company calculated
on the basis of an insurance appraisal submitted
by the Company as indicating the present value
of the Company's assets. This shows that the
10 Company has earned for the shareholders since
1892 a total of \$24,560,804.50."

MR. BRUNEAU: I will make the same qualification
as Mr. Howard, Mr. McRuer.

15 MR. McRUER: Well, it was not made before now.
"Although the original investment cannot be
determined with accuracy, Mr. Howson has shown
it to have been not more than \$3,930,130."

MR. BRUNEAU: Would it be possible for you to
20 elaborate that at all. I cannot see how that
figure is reached.

MR. McRUER: Let us see Exhibit 917.

8 THE COMMISSIONER: Mr. Howson is not here.

MR. BRUNEAU: I see that is taken off three mills.

25 MR. McRUER: Well, that is shown on Exhibit 917,
page 3. The present capital is shown as \$6,377,000.
Now, they deduct - it is called "bonus stock" -
it should be stock dividend - issued in 1910.
30 It says here, "Bonus stock issued in 1910 as stock

1934

operations and improvements charged to operations,

\$2,401,888.01.

Mr. Hanson has prepared a statement which is a summary of the earnings of the company as located on the basis of an insurance appraisal submitted by the company as indicating the present value of the company's assets. This shows that the company has earned for the shareholders since 1928 a total of \$24,500,804.50.

MR. BROWN: I will make the same qualification as Mr. Howard, Mr. Morner.

MR. MORNER: Well, it was not made before now. Although the original investment cannot be determined with accuracy, Mr. Hanson has shown it to have been not more than \$5,000,000.

MR. BROWN: Would it be possible for you to elaborate that at all. I cannot see how that figure is reached.

MR. MORNER: Let us see Exhibit 217.

MR. BROWN: Mr. Hanson is not here.

MR. BROWN: I see that is taken off three million. MR. MORNER: Well, that is shown on Exhibit 217.

page 3. The present capital is shown as \$2,377,000. It is not a stock dividend - issued in 1910. It is not a stock dividend - issued in 1910.

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5

dividend and charged surplus account and inflation in initial value of assets taken over as part consideration for issue of original capital of \$2,700,000 (traced) \$1,121,870." Deduct that from your \$6,000,000 ----

MR. BRUNEAU: I just wonder where you got that figure?

10

MR. McRUER: That was given in evidence when Mr. Howson was giving his evidence on this. If you refer to the evidence you will find how that is made up.

15

"The evidence at pages 6078, 6080, 6081, 6084, 6088, 6091, 6111, 6116, 6121, 6126, and 6129 shows the Canadian Coloured Cotton Mills Limited, made annual complaints of insufficient tariff protection. The annual report, filed as a part of Exhibit 340, of Canadian Cottons Limited, show that these complaints were renewed in the year 1923 and continued in the years 1924, 1925, 1926, 1927, 1928, 1929, 1930, 1932, 1934, 1935 and 1936."

20

25

So that they had more or less tuned in on the same station as the other broadcasting company.

"It is submitted the record of earnings do not justify the complaint nor the increased tariff protection given to the industry since 1930."

30

So that except for dealing with the subject of "inventory reserve" that is all I have to say about

18887

dividend and charged surplus account and inflated
in initial value of assets taken over as part
consideration for issue of original capital of
\$2,700,000 (rounded) \$1,181,870." Report from
from your \$2,000,000 ---

MR. SHUMWAY: I just wonder where you got that
figures
MR. McLENNAN: That was given in evidence when
Mr. Rowson was giving his evidence on this. If you
refer to the evidence you will find how that is made
up.

"The evidence at pages 6078, 6080, 6081, 6084,
6088, 6091, 6111, 6116, 6121, 6122, and 6123
shows the Canadian Coloured Cotton Mills Limited,
made annual complaints of insufficient tariff
protection. The annual report, filed as a
part of Exhibit 340, of Canadian Cotton Mills Limited,
show that these complaints were renewed in the
year 1923 and continued in the years 1924,
1925, 1926, 1927, 1928, 1929, 1930, 1932, 1934,
1935 and 1936."

So that they had more or less turned in on the same
station as the other broadcasting company.
"It is submitted the record of earnings do not
justify the complaint nor the increased tariff
protection given to the industry since 1920."
So that except for dealing with the subject of
"inventory reserve" that is all I have to say about

Canadian Cottons at the moment.

The COMMISSIONER: Now you go to Montreal Cottons.

MR. McRUER: Yes.

5 THE COMMISSIONER: I just want to point out to you that in the Index to your Brief you have omitted to register them. You have Dominion Textile Company at 126 and Canadian Cottons Limited at 184 and then you go to Wabasso. This other company
10 should be in there.

MR. McRUER: In respect to Canadian Cottons it is, of course, unfortunate we have not for what consideration the original common stock was issued because that is always a very important matter, because
15 there always is a certain pyramiding. If it is issued just to promoters or if it is issued for cash consideration it is quite a different story.

MR. BRUNHEU: I might point out that this Company
20 has not been particularly operating for stock market purposes or anything of the sort. It has only had this one change in its capital structure since 1892 and that was imposed on it by the Bank.

MR. McRUER: I do not suggest for a minute that
25 any of these companies were running for stock market purposes. I have not suggested that all the way through.

Coming to the Montreal Cottons Limited, we have
30 a pretty complete record.

THE COMMISSIONER: Who is acting for them?

Canadian Cottons at the moment.

THE COMMISSIONER: Now you go to Montreal Cottons

MR. BRIDGES: Yes.

MR. BRIDGES: I just want to point out to

you that in the index to your brief you have omitted

to register them. You have Dominion Textile

Company at 126 and Canadian Cottons Limited at 124

and then you go to Webbsco. This other company

should be in there.

MR. MONTGOMERY: In respect to Canadian Cottons

it is, of course, unfortunate we have not for what

we are doing in the index to your brief we have

because that is always a very important matter, because

there always is a certain pyramiding. If it is issued

just to promoters or if it is issued for cash consider-

ation it is quite a different story.

MR. BRIDGES: I might point out that this Company

has not been particularly operating for stock market

purposes or anything of the sort. It has only had

this one change in its capital structure since 1922

and that was imposed on it by the bank.

MR. MONTGOMERY: I do not suggest for a minute that

any of these companies were issued for stock market

purposes. I have not suggested that all the way

through.

Looking to the record of Dominion Textile, we have

a pretty complete record.

THE COMMISSIONER: Who is acting for them?

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You, Mr. Heward?

MR. HEWARD: As a matter of fact Mr. Ballantyne is looking after this particular phase of it.

5 MR. McRUER: Do you want me to leave it?

MR. HEWARD: No. I cannot check you on the figures, that is all.

MR. McRUER: "The business of this company was commenced in January, 1874,"

10 And we have a pretty complete record of the whole affairs of this Company since that date. It was incorporated with a capitalization of \$500,000, divided into 5,000 shares of \$100 each. The issued capital appears ---

15 THE COMMISSIONER: Are you talking there of common shares?

MR. McRUER: That is all it had, that share capital. They were all common shares.

20 "The issued capital appears to have been \$385,000. There is no record of the consideration for which these shares were issued. The first record of the Company is contained in a Minute Book which was produced. In the year 1881, a stock bonus of \$110,000 was issued to shareholders as of May 18th, 1881. Dividends were paid at the rate of 11% per annum in 1880 and 20% per annum in 1881. In May, 1882, the authorized capital was increased to \$1,000,000. In May, 1882,

25

30

1981

1981, 1982, 1983

MR. HARRIS: As a matter of fact Mr. Harris is looking after this particular phase of it.

MR. HARRIS: Do you want me to leave it?

MR. HARRIS: No, I cannot check you on the

figures, that is all.

MR. HARRIS: "The business of this company was

commenced in January, 1974,"

and we have a pretty complete record of the whole

history of this company since that date. It was

incorporated with a capitalization of \$200,000,

divided into 2,000 shares of \$100 each. The 1 share

of the company

THE COMPANY: Are you talking there of

the company

MR. HARRIS: That is all it had, that share capital.

They were all common shares.

"The issued capital appears to have been \$200,000."

There is no record of the constitution for which

these shares were issued. The first record

of the company is contained in a minute book

which was produced. In the year 1981, a

stock bonus of \$10,000 was issued to shareholders

as of May 1981, 1981. Dividends were paid at the

rate of 1% per annum in 1980 and 2% per annum

in 1981. In May, 1982, the authorized capital

was increased to \$1,000,000. In May, 1982,

14550

\$100,000 of stock was sold to shareholders at par. In November, 1882, a further issue of \$100,000 of stock was sold. By February, 1886, the issued capital amounted to \$794,200. In 1886, 58 shares were sold at a premium of \$22, bringing the outstanding capital up to \$800,000. In 1893, \$200,000 of stock was sold, bringing the outstanding capital up to \$1,000,000. In this year the authorized capital was increased by \$1,000,000. In 1893, the Company sold for cash, \$400,000 worth of stock in 1898, \$100,000, in 1899 \$150,000 and in 1900, \$330,000. The capital outstanding at that date was \$2,000,000. In 1901, the authorized capital was increased to \$4,000,000: \$1,000,000 was sold at par, bringing the outstanding capital up to \$3,000,000. There were no further changes in the capital structure of the company until 1911, when a new company, called the Montreal Cottons, Limited, was incorporated. 1911 seems to have been the year of general shuffle. "The following is the dividend record of the company from 1880 to 1911," and we have there tabulated the record of the dividends worked on the percentage of outstanding capital.

"Some indication of the prosperity of the Company is reflected in a statement made to a special

1933

is reflected in a statement made to a special
"Some indication of the prosperity of the company
regarding the record of the dividends worked on the
the following is the dividend record of the
1911 seems to have been the year of general activity.
company, limited, was incorporated in 1911, when a new company, called the Montreal
in the capital structure of the company until
up to \$5,000,000. There were no further changes
was sold at par, bringing the outstanding capital
capital was increased to \$4,000,000. \$1,000,000
1900, \$350,000. The capital outstanding at
in 1938, \$100,000, in 1939 \$150,000 and in
company sold for cash, \$400,000 worth of stock
was increased by \$1,000,000. In 1935, the
\$1,000,000. In this year the authorized capital
sold, bringing the outstanding capital up to
4000,000. In 1938, \$200,000 of stock was
sold, bringing the outstanding capital up to
in 1935, 25 shares were sold at a premium of
1935, the issued capital amounted to \$795,800.
\$100,000 of stock was sold. By February,
par. In November, 1932, a further issue of
\$100,000 of stock was sold to shareholders at

5

meeting of the shareholders called to meet on the 5th of June, 1905, to consider an offer that had been made to the shareholders on behalf of a Syndicate organized for the purpose of acquiring their stock. On this occasion, the president, S.H. Ewing, submitted to the shareholders a

10

long and comprehensive statement of the affairs of the company. The previous five years operations are dealt with. The total earnings for the five years amounted to \$2,522,427.22, distributed to shareholders, \$1,128,750,000, carried into reserve fund or profit and loss, \$812,331.75. In addition, during the period, \$375,000 was written off for depreciation and \$471,859.72 for repairs and improvements."

15

20

This is one of the few companies that prior to the taxing legislation set up a definite reserve for depreciation.

"The combined reserve at this time appeared to be \$2,101,548 or 70% of the total capital.

The President's words are as follows:

25

"In other words, you have had paid to you a satisfactory dividend, your plant has been maintained in an exceptionally high state of efficiency and you have accumulated a reserve in excess of 70% of your capital. Now, I think you must all agree that this is a highly creditable showing and one of which, as shareholders,

30

meeting of the shareholders called to meet on the
5th of June, 1905, to consider an offer that had
been made to the shareholders on behalf of a
syndicate organized for the purpose of acquiring
the property of the company, and to consider
a plan of action, submitted to the shareholders a
long and comprehensive statement of the affairs
of the company. The previous five years operations
are dealt with. The total earnings for the five
years amounted to \$2,582,447.22, distributed to
shareholders, \$1,128,750.00, carried into reserve
fund or profit and loss, \$813,381.75. In
addition during the period, \$375,000 was written
off for depreciation and \$47,800.75 for repairs
and improvements.

This is one of the two companies that prior to the
existing legislation set up a definite reserve for
the purpose of providing for the future.

"The combined reserve at this time appeared to
be \$2,101,548 or 70% of the total capital.

The President's words are as follows:

"In other words, you have had paid to you a
satisfactory dividend, your plant has been main-
tained in an exceptionally high state of efficiency
and you have accumulated a reserve in excess
of what is required for the future.

must all agree that this is a highly creditable
showing and one of which we should be proud."

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we should be proud. I am proud of it and every shareholder should take equal pride in it."

THE COMMISSIONER: When was this said?

5 MR. McRUER: This was said by Mr. Ewing in a letter that was sent out to the shareholders at this time to discourage them ---

THE COMMISSIONER: 1905?

10 MR. McRUER: Yes. to discourage them from accepting an offer that was being made to them by the Royal Trust Company on behalf of a syndicate that had been organized to try and get the shares in and I think there is no question the syndicate was composed of - certainly some of the same men as the Dominion
15 Textile Syndicate.

"It appears from Exhibit 337, that the Chairman of the Syndicate that was proposing to purchase the Montreal Cotton Company Limited, was David
20 Yuile and associated with him was D. Williamson." He was in the other Syndicate too.

THE COMMISSIONER: Was he in the other Syndicate? I don't remember him.

25 MR. McRUER: I think so. I am subject to correction. Yes, he was in for \$90,000 in the other Syndicate, page 140.

The names of the other members of the Syndicate were not disclosed.

30 "At the end of the year 1910 the company had a profit and loss surplus of \$2,002,610.14.

we should be proud. I am proud of it and every shareholder should take equal pride in it.

THE COMMISSIONER: When was this said?

MR. MONTGOMERY: This was said by Mr. King in a letter that was sent out to the shareholders at this time.

to discourage them ---

THE COMMISSIONER: 1903?

MR. MONTGOMERY: Yes. to discourage them from

accepting an offer that was being made to them by the

Norfolk Trust Company on behalf of a syndicate that

had been organized to try and get the shares in and

I think there is no question the syndicate was composed

of - certainly some of the same men as the Dominion

Investment Syndicate.

"It appears from Exhibit 207, that the Chairman

of the syndicate that was proposing to purchase

the Montreal Cotton Company Limited, was David

Kellie and associated with him was D. Williamson."

He was in the other syndicate too.

THE COMMISSIONER: Was he in the other syndicate?

I don't remember him.

MR. MONTGOMERY: I think so. I am subject to

correction. I am not sure of the date in the letter.

1903, I think.

The names of the other members of the syndicate

were not disclosed.

At the end of the year 1910 the company had a

profit and loss surplus of \$2,002,810.14.

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The business done for the year was over
\$3,000,000.

5 In 1911 a new company was incorporated with
a capitalization of \$8,000,000. Two shares in
the new Company were issued to every share in
the old company ----"

THE COMMISSIONER: Will you pardon me a moment.
The Montreal Cottons is still running?

10 MR. McRUER: Yes. It is running but now the Dominion
Textile since 1930 holds the controlling interest,
54% of the stock.

15 "Two shares in the new company were issued to every
share in the old company, one share of common
and one share of preferred."

So that when we come to consider dividend record --

20 THE COMMISSIONER: When you say two shares of the
new company were issued to old shareholders you mean
for each share ?

MR. McRUER: Yes, for each share. One share
of common and one share of preferred for each share.

25 "The dividend record of the company is as follows:"
And we have to have in mind that the shares were split
at that time in 1911 in that way.

"Dividends on the preferred stock were paid each
year at the rate of 7% per annum.

30 "In 1911 a dividend of 3/4% was paid on
the common stock.

"In 1912, 1% on the common stock.

1922

The business done for the year was over

\$1,000,000

In 1911 a new company was incorporated with

a capitalization of \$5,000,000. Two shares in

the new company were issued to every share in

the old company ---

THE QUESTIONER: Will you pardon me a moment.

The Montreal Gazette is still running?

MR. MONTGOMERY: Yes. It is running but not the London

edition since 1880 holds the controlling interest,

half of the stock.

Two shares in the new company were issued to every

share in the old company, one share of common

and one share of preferred."

What when we come to consider dividend record --

THE QUESTIONER: When you say two shares of the

new company were issued to old shareholders you mean

of each share?

MR. MONTGOMERY: Yes, one share of common

and one share of preferred for each share.

"The dividend record of the company is as follows:

and we have to have in mind that the shares were split

as follows in 1911 and 1912

"Dividends on the preferred stock were paid each

year at the rate of 7 1/2 per annum.

"In 1911 a dividend of 3 1/4 was paid on

the common stock.

"In 1912, 1 1/2 on the common stock.

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"From 1913 to 1918, inclusive, 4% on the common stock.

In 1919, 4½% on the common stock.

From 1920 to 1932, inclusive, 6% on the common stock.

Since 1932, no dividend has been paid on the common stock."

But the dividend on the preferred stock, amounting to 7%, would be equal to the 7% per annum on the common stock that was outstanding in 1911.

"Up to and including, 1928, the dividends were paid out of profits earned from manufacturing.

For the three years, 1930, 1931 and 1932, the company had operating losses and reserves were drawn on for dividends."

Now, there is one thing that it is difficult for me to understand and that is when in the very year that the Dominion Textile Company gets controlling interest of this Company it proceeds to have operating losses and there are close-working arrangements - for instance, Dominion Textile later are appointed selling agents for the Company, and they sell and dictate to the Company in that way the price that the company will get for its stock and they also buy large amounts ---

MR. HEWARD: That is not right. Mr. Aird said that he fixed the prices.

MR. McRUER: Since they have been appointed selling agents.

MR. HEWARD: Yes.

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From 1913 to 1918, inclusive, 4% on the common stock.

In 1919, 4% on the common stock.

From 1920 to 1928, inclusive, 6% on the common stock.

stock.

Since 1929, no dividend has been paid on the common stock.

common stock."

But the dividend on the preferred stock, amounting to

7%, would be equal to the 7% per annum on the common

stock that was outstanding in 1911.

"Up to and including, 1928, the dividends were

paid out of profits earned from manufacturing.

For the three years, 1929, 1930 and 1931,

the company had operating losses and reserves

was paid on the common stock."

Now, there is one thing that it is difficult for me

to understand and that is when in the very year that

the Dominion Textile Company gets controlling interest

it pays dividends to the common stockholders.

and there are close-working arrangements - for instance

the Dominion Textile Company has a large amount of

for the company, and they sell and dictate to the

company in that way the price that the company will pay

for its stock and they also pay large amounts ---

MR. NEWARD: That is not right. Mr. Bird said

that he fixed the prices.

MR. McNEIL: Since they have been appointed selling

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MR. McRUER: They appointed Mr. Aird - I don't know that it makes very much difference. The Dominion Textile Company buys large quantities of goods from the Montreal Cotton Company for the print work.

MR. HEWARD: I think it should also be pointed out that this arrangement only came into effect two or three years ago and since then they have been improving their position. When they took control ---

THE COMMISSIONER: The years of the losses were 1930, 1931 and 1932. Those were the years of operating losses. Now then, was Mr. Aird appointed since then?

MR. HEWARD: The selling arrangement was made later than those years, in my recollection.

MR. McRUER: However, the Dominion Textile Company is in this position that it is operating this company and buying from it, it is the majority shareholder of it and it is gradually acquiring shares, and does not the interest and duty conflict, and one is in trying to get complete ownership of the Company at as low a price as possible and that way to pay as little dividends and buy from it ^{at} as low a price as possible---

MR. HEWARD: What do you base your statement on that it is gradually acquiring shares of the company?

MR. McRUER: Are they not acquiring shares right along?

MR. HEWARD:

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Mr. Howard: They appointed Mr. and I don't

know that it means very much difference. The

Union Fertilizer Company pays large quantities of

15-034
1930
@ 90
@ 22
@ 18

1931 - 120
1932 - 124
1933 - 124
1934 - 124

1935 - 124
1936 - 124
1937 - 124
1938 - 124

1939 - 124
1940 - 124
1941 - 124
1942 - 124

and buying from it, it is the majority shareholder

of it and it is gradually acquiring shares, and does

not the interest and buy conflict, and one is

in trying to get complete ownership of the Company

at as low a price as possible and that way to buy as

little dividends and pay from it as low a price as

possible---

Mr. Howard: What do you base your statement on

that it is gradually acquiring shares of the company?

are they not acquiring shares right

Mr. HEWARD: There has been no evidence of that.

MR. McRUER: Have they not?

MR. HEWARD: I don't know. You are making the statement.

THE COMMISSIONER: To come back to the appointment of the Dominion Textile as selling agents, that took place on the 30th of September, 1934.

MR. McRuier: Yes.

THE COMMISSIONER: When you refer in this paragraph to dividends are you referring to common stock dividends paid out of reserves?

MR. McRUER: Yes.

THE COMMISSIONER: Did the earnings always suffice to pay preferred dividends?

MR. HEWARD: Yes, but their earnings had not been sufficient, they called on reserves.

MR. McRUER: They made operating losses for these three years.

THE COMMISSIONER: They paid their preferred dividends out of reserve?

MR. McRUER: Yes.

THE COMMISSIONER: But did they pay their common?

MR. McRUER: Up to 1932. It was not exactly reserve, it was an unusual fund that they had due to the sale of their water power rights, to the Beauharnois Company. There was \$1,975,000 cash.

THE COMMISSIONER: That is what you call a reserve here?

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MR. HAWARD: There has been no evidence of that.

MR. MONTGOMERY: Have they not?

MR. HAWARD: I don't know. You are making the

statement.

MR. MONTGOMERY: To come back to the statement

of the Dominion Textile as selling agents, that took

place on the 30th of September, 1934.

MR. MONTGOMERY: Yes.

THE COMMISSIONER: When you refer in this paragraph

to dividends are you referring to common stock dividends

paid out of reserves?

MR. MONTGOMERY: Yes.

THE COMMISSIONER: Did the company always utilize

its reserves in this way?

MR. MONTGOMERY: Yes, but their earnings had not

been sufficient, they relied on reserves.

MR. MONTGOMERY: They made operating losses for years

THE COMMISSIONER: They paid their dividends

dividends out of reserves?

MR. MONTGOMERY: Yes.

THE COMMISSIONER: But did they pay their common

MR. MONTGOMERY: Up to 1932. It was not exactly

reserves, it was an unusual fund that they had the

to the fact that they had been paying dividends for

several years. They had been paying dividends for

several years. They had been paying dividends for

MR. McRUER: "In 1929, the Company entered into a contract with ---"

THE COMMISSIONER: When you say the Company had operating losses and reserves were drawn on for dividends you have reference to this fund?

MR. McRUER: I am not sure they took it all out of this fund but they certainly took a proportion.

"In 1929, the Company entered into a contract with the Beauharnois Power Corporation, Limited, for leasing its water rights for 70 years in consideration of: \$1,975,000 cash, 5,435 shares of the common stock of Beauharnois Power Corporation Company Limited, and 8,000 h.p. delivered on the Company's bus bars free of charge, with a further option of 4,000 horse power at \$25.00 per horse power. The \$1,975,000 cash paid was set up in a special reserve account and it was on this reserve account that the Company drew to pay its dividends from 1930 to 1934."

MR. HEWARD: I think - I cannot say positively - but my recollection is that there was a little more cash, some more cash than that paid but this was the part of it that was set up in reserve.

MR. McRUER: I was under the impression it was \$2,000,000.

MR. HEWARD: I was under the impression it was \$2,000,000 odd but Mr. Ballantyne will have the

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figures on that.

THE COMMISSIONER: Well now, we will adjourn.

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-- The Commission adjourned at 5.05 P.M. to resume
at 10.30 A.M. tomorrow, February 10, 1937.

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The Commission will now, as will be seen.

-- The Commission adjourned at 10.30 A.M. to resume
at 10.30 A.M. tomorrow, February 10, 1957.

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ROYAL COMMISSION ON THE TEXTILE INDUSTRY

HON. MR. JUSTICE W.F.A. TURGEON,

Commissioner,

A.S. Whiteley, Secretary,

ONE HUNDRED AND SEVENTH DAY

(February 10th, 1937)

ARGUMENT

1921

WILLIAM BRYDIE & SONS LTD.

WILLIAM BRYDIE & SONS LTD.

Commissioner,

WILLIAM BRYDIE & SONS LTD.

WILLIAM BRYDIE & SONS LTD.

Commissioner,

WILLIAM BRYDIE & SONS LTD.

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ROYAL COMMISSION ON THE TEXTILE INDUSTRY

HON. MR. JUSTICE W.F.A. TURGEON,

Commissioner,

A.S. Whiteley, Secretary,

A p p e a r a n c e s :J.C. McRuer, K.C. and)
E. Beauregard, K.C.)

Commission Counsel,

R.L. Kellock, K.C.

For Primary Textiles
Institute.

C.G. Heward, K.C.)

Aime Geoffrion, K.C.)
and)For Dominion Textile
Company.

C.T. Ballantyne,)

S.G. Dixon, K.C.

For Courtaulds Limited.

L.A. Forsyth, K.C.

For Canadian Celanese Ltd.
and Canadian Silk Products
Limited.

A.S. Bruneau, K.C.

For Canadian Cottons,

Thos. Tremblay, K.C.)
and)

For M.E. Binz Co. Ltd.

J.H. Hebert,)

Francois Lajoie, K.C.

For Wabasso Cotton Co.

-- ooo --

LIST OF MEMBERS OF THE BOARD

HON. MR. JUSTICE W.M.A. TRENDALE

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A.C. Whistley

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 Institute

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 Aime Gosselin, K.C.
 and
 C.T. Bellamyne

S.C. Dixon, K.C.
 L.A. Fortayn, K.C.
 For Canadian Cellulose Ltd.
 and Canadian Cellulose
 Limited

A.S. Brunson, K.C.
 For Canadian Cottons
 and
 For C.A. and C.A. Ltd.

Transvaal Cottons, Ltd.
 For Transvaal Cotton Co.

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Ottawa, Ontario,
Wednesday, February 10/37.

-- The Commission resumed at 10.30 a.m.

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ARGUMENT BY MR. McRUER, K.C. (Resumed):

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I am proceeding at page 192 of my brief, my lord,
There is a statement there that-"It is not clear from
the evidence at what date the Dominion Textile Company
secured control of The Montreal Cottons Limited".
That has now been cleared up by Mr. Gordon yesterday,
and it is May of 1930.

MR. HEWARD: You made a similar correction on page
162.

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MR. McRUER: Yes. Now, one or two comments in
reference to something that appears at the foot of page
192.

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" In the year 1903, this company employed 2,722
hands and had in operation 4,551 looms. The total
sales for the year amounted to \$2,384,416.27. At
the present time the Company has 3,524 looms".

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There seems to have been a drop of about one thousand
in the number of looms, and the company has in its
employ 2,476 employees and their sales amount to
\$5,189,271.57, which will be 246 less employees

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and almost twice the value of goods, and about one
thousand less looms which does give some indication
of the result of mechanization. Of course, one has
always got to bear in mind, as was pointed out the
other day, in comparing the value of sales that the
price of the raw material may vary, but in this case

Ottawa, Ontario,
Wednesday, February 10/37

The following is a summary of the evidence:

INTERVIEWED BY MR. McROBERT, K.C. (Respondent):

I am proceeding at page 192 of my brief, my Lord.
There is a statement there that "it is not clear from
the evidence at what date the Dominion Textile Company
secured control of the Montreal Cottons Limited".
and it is May of 1930.

MR. McROBERT: You make a similar correction on page

MR. McROBERT: Yes. Now, one or two comments in

192.

"In the year 1930, this company employed 2,782
men and was in operation at 100 looms. The total
sales for the year amounted to \$2,384,416.27. At
the present time the Company has 2,384 looms."

There seems to have been a drop of about one thousand
in the number of looms, and the company has in its
employ 2,478 employees and their sales amount to
\$2,189,271.37, which will be 246 less employees

and almost twice the value of goods, and about one
fourth the result of mechanization. Of course, one has
to be careful not to be misled, as the balance sheet
shows that, in comparing the value of sales that the
value of the raw material was only, but in this case

their brief indicates that the records show that the price of raw cotton in the two years was practically the same.

MR. HEWARD: 1903 and 1935?

MR. McRUER: Yes.

THE COMMISSIONER: The price of raw cotton was the same?

MR. McRUER: Was the same so that the comparison in value as far as that goes is a fair one. Of course, the prices generally in the country may vary in that time. On February 10th, 1933 the company--

MR. HEWARD: 1903.

MR. McRUER: 1903, rather, the company in the directors' report complained in reference to the preferential tariff.

"The Preferential Tariff, your Directors think, has been a great mistake and it is hoped that the Government will realize this and will abandon it altogether and will bring back the duties to what they were before it was introduced."

Between 1903 and 1910, when the new company was organized, the dividends were paid as stated heretofore, including the dividends on the bonus stock, and the reserves of the Company were increased by \$536,006.00."

So that with the preferential tariff that was considered by the company to be a mistake it seemed to have done pretty well.

"Exhibit 917, page 18, shows that there is an apparent surplus over the book value of the assets

these brief indicated that the records show that the
of raw cotton in the two years was practically the

MR. HOWARD: 1908 and 1909?

MR. McLELLAN: Yes.

THE COMMISSIONER: The price of raw cotton was the

same?

MR. McLELLAN: Was the same as that the commission
value as far as that goes is a fair one. Of course,
the prices generally in the country may vary in that
time. On February 10th, 1908, the company--

MR. HOWARD: 1908.

MR. McLELLAN: 1908, rather, the company in the
directors' report complained in reference to the

preference tariff.

"The preferential tariff, your Directors think,
has been a great mistake and it is hoped that the
Government will realize this and will abandon it
altogether and will bring back the duties to what
they were before it was introduced."

Between 1903 and 1910, when the new company was
organized, the dividends were paid as stated here-
before, including the dividends on the bonus stock,
and the reserves of the company were increased by

\$225,000.00."

So that with the preferential tariff that was considered
by the company to be a mistake it seemed to have done
pretty well.

"Exhibit 917, page 18, shows that there is an
excess surplus over the book value of the assets

"of the Company amounting to \$2,000,000.00 and page 19 shows that, in the years 1931 to 1935, inclusive, very heavy charges were made to operations for mill supplies and equipment".

5 Now, that is an extremely important thing. Although the dividends were paid out of this special fund that was created by the sale of the water power rights to the Beauharnois Company these very heavy charges were made against operations for repairs and equipment.

10 MR. HEWARD: Mill supplies and equipment.

MR. McRUER: Mill supplies and equipment, and that the charges to repair account for wages were extremely heavy, and we do know, it was in the evidence that a revamping of the company's plants was going on at that time. Now, for mill supplies and equipment, these jumped between 1931 and 1935 from \$60,391.33 to \$246,644.32 so it is not much wonder the company's balance sheet did not show a profit in the profit and loss account. They reached a high point in 1934 of \$341,895.05 charged against profit and loss -- or against operations, rather, for the supplies, so when they did not have a balance in the profit and loss account to pay the dividends we find probably where the money has gone.

25 MR. HEWARD: My learned friend does not suggest that mill supplies and equipment are not proper charges to operations? Mill supplies are things like oil, coal and so forth and equipment is consumable equipment such as belting, bobbins, spools, needles and so forth.

30 MR. McRUER: I do suggest it is a most extraordinary

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"of the company amounting to \$2,000,000.00 and

page 13 shows that, in the years 1931 to 1935, in

alternative, very heavy charges were made to operations

for mill supplies and equipment."

Now, that is an extremely important thing. Although

the dividends were paid out of this account fund that

was created by the sale of the water power rights to

the Beatharholis Company these very heavy charges were

made against operations for repairs and equipment.

MR. HEWARD: Mill supplies and equipment.

MR. MORRIS: Mill supplies and equipment, and that

the charges to repair account for wages were extremely

heavy, and we do know, it was in the evidence that a

reversing of the company's plan was going on at

that time. Now, for mill supplies and equipment,

these jumped between 1931 and 1935 from \$50,000.00 to

\$246,644.82 so it is not much wonder the company's

balance sheet did not show a profit in the profit and

loss account. They reached a high point in 1934 of

\$241,695.05 charged against profit and loss -- or

against operations, rather, for the supplies, so when

they did not have a balance in the profit and loss

account to pay the dividends we find properly where

THE COURT: Now, what is the answer?

MR. MORRIS: In 1934, when the company was

mill supplies and equipment are not proper charges

to operations? Mill supplies are things like oil,

coal and so forth and equipment is consumable equipment.

MR. HEWARD: Yes, but, wouldn't it be a very

large amount? I am assuming it is a very large amount.

5 thing if these are proper charges for mill supplies and equipment that are properly charged to operations that they would jump from \$60,000 in one year to \$341,000 in another year at a time when the mill is being revamped. In 1935 they amount to \$246,000 at a time when the mill is being revamped.

MR. HEWARD: This old equipment may have been allowed to run down.

10 MR. McRUER: It is all "may be".

MR. HEWARD: Yours is all "may be", too, Mr. McRuier.

15 MR. McRUER: Of course it is all "may be", and I know they are touchy on these things. If they haven't charged them properly they would be subject to income tax on it, but if they are proper charges they would not be subject to income tax, but the point is we do find at this very time when the mill is being revamped that these charges, during these four or five years, are away in excess of what they had been in the previous years, and that is not the whole story. 20 We come to the next paragraph and Mr. Gordon in the witness box has borne us out on this.

25 "At the time these heavy charges were being made to operations, the mill was undergoing what was called a 're-vamping process'".

Now, that is in evidence and I give the reference to it.

30 "In addition to the charges shown in Exhibit 917, page 19, to operations for repairs and mill supplies, there were very heavy charges for wages, which were charged to wages account. These amounted to as much as \$217,000.00 in the year 1933. During that

thing if there are proper charges for all supplies and equipment that are properly charged to operation and that they would jump from \$60,000 in one year to \$241,000 in another year at a time when the mill is being reversed. In 1935 they amount to \$145,000 at a time when the mill is being reversed.

MR. HENRY: This old equipment may have been allowed to run down.

MR. McNEIL: It is all "may be".

MR. HENRY: There is all "may be", too, Mr. McNEIL.

MR. McNEIL: Of course it is all "may be", and I

know they are tending on these things. If they have

charged them properly they would be subject to

income tax on it, but if they are proper charges

they would not be subject to income tax, but the point

is we do find at this very time when the mill is being

reversed that they are not taking any charge

five years, one away in excess of what they had been

in the previous years, and that is not the whole story.

We come to the next paragraph and Mr. Gordon in the

witness box has borne us out on this.

"At the time there heavy charges were being made

on equipment, the mill was producing very low

output of electricity."

Now, that is in evidence and I give the reference to it.

"In addition to the charges shown in Exhibit 31V,

there were very heavy charges for wages, which were

charged to the mill. These charges were

shown as \$11,000 in the year 1935. During 1936

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"year, out of \$250,000.00 spent in mechanics' wages for repairs, etc., only \$33,000.00 was charged to capital account".

5 MR. BALLANTYNE: In the previous years there had been larger sums charged to capital account.

MR. McRUER: Pardon?

MR. BALLANTYNE: In the previous years --

10 MR. McRUER: You see, Mr. Gordon testified as to the amount of these wages that were for capital expenditures, that is, the revamping of the plant, and he wrote a letter explaining the rates of wages and how they were higher there at that time, and explained that was because there was a lot of mechanics' wages involved, taken into the pay roll, who were not ordinary
15 mill hands, and he gave in evidence that it would amount to as much as about \$250,000, and I asked him how much of it was charged against capital account, and it was \$33,000.00.

20 MR. HEWARD: And he also answered you in the same answer that in 1931 the wages charged to capital account amounted to \$120,000 and in 1932 \$132,000.

MR. McRUER: Yes, but how much were the wages that were charged to wages account in those years?

25 MR. HEWARD: He explained in his evidence all wages were charged to wages account, and that they were posted from the wages account to the various other accounts.

30 MR. McRUER: No, no, no. There is no use trying to confuse it. The point is that Mr. Gordon admitted that wages that were paid for capital expenditures were charged to wages account, and those expenditures for

1925

"year, out of \$130,000.00 spent in mechanics"

wages for repairs, etc., only \$23,000.00 was charged

to capital account."

MR. SALLANTYNE: In the previous years there had been

MR. McNEIL: Anthony?

MR. SALLANTYNE: In the previous years --

MR. McNEIL: You see, Mr. Gordon testified as to

the amount of these wages that were for capital expend-

itures, that is, the reversing of the plant, and he

wrote a letter explaining the rates of wages and

how they were higher than at that time, and explained

that was because there was a lot of mechanics' wages

involved, taken into the pay roll, and were not ordinary

mill hands, and he gave in evidence that it would

amount to as much as about \$250,000, and I asked him

how much of it was charged against capital account, and

it was \$23,000.00.

MR. McNEIL: And he also answered you in the case

answer that in 1921 the wages charged to capital account

amounted to \$120,000 and in 1922 \$132,000.

MR. McNEIL: Yes, but how much were the wages that

were charged to wages account in those years?

MR. McNEIL: He explained in his evidence all

were charged to wages account, and that they were posted

from the wages account to the various other accounts.

MR. McNEIL: There is no use trying to

confuse it. The point is that Mr. Gordon admitted

that wages that were paid for capital expenditures were

charged to wages account, and these expenditures for

revamping the plant -- of those only \$35,000.00 was charged to capital account, so that wages were charged that year to operations, that were paid for capital expenditures, in excess of those that were charged to capital account. Now, that is quite clear.

MR. HEWARD: Here is his explanation, 13699 --

"A. It does not necessarily follow that because wages are shown on the pay roll that that amount of money, that that complete amount of money was all charged to one account in the books of the company. The pay roll is really simply a record of the time and piece rates and so on of people working for one reason or another, and to keep the company's books wages on the pay roll have to be entered into the proper accounts, and some of these wages may be charged to operating accounts, such as mill wages, and some other portion of the wages may be charged to capital account, such as buildings or machinery."

MR. McRUER: Yes, but that does not -- we will get the letter that was written by Mr. Gordon. I am not going to have this put in confusion.

THE COMMISSIONER: The question is whether the proper amount is charged to capital account.

MR. McRUER: Yes, my lord. That was in my friend's examination. Now, here is what Mr. Gordon says in cross-examination.

"Q. Mr. Gordon, in your letter to Messrs. Clarkson --

MR. HEWARD: Page?

MR. McRUER: 13700.

"Q. Mr. Gordon, in your letter to Messrs. Clarkson,

1911

...the plant -- of those only \$25,000.00 was
charged that year to operations, that were paid for
capital expenditures, in excess of those that were
charged to capital account. Now, that is quite clear

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MR. HENNING: Here is his explanation, 1911 --

"A. It does not necessarily follow that because
wages are shown on the pay roll that that amount
of money, that that complete amount of money was
all charged to one account in the books of the c
pany. The pay roll is really simply a record of

10

the time and wages paid to the employees, and it is not
the same as a statement of the wages paid, and it is not
the same as a statement of the wages paid, and it is not
the proper accounts, and some of these wages may

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be charged to operating accounts, such as mill wages,
and some other portion of the wages may be charged
to capital account, such as building or machinery."
MR. McRURR: Yes, but that does not -- we will ask

20

the letter that was written by Mr. Gordon. I am not
going to have this put in confusion.

THE COMMISSIONER: The problem is whether the wages
should be charged to capital account.

MR. HENNING: Yes, of course. That was in my friend's
examination. Now, here is what Mr. Gordon says in

25

...examination.

MR. HENNING: Yes, of course. That was in my friend's
examination. Now, here is what Mr. Gordon says in

30

...examination.

"Gordon & Dilworth that was filed during Mr. Howson's evidence you said that 25% of the pay roll was taken up during one of these years? A. Yes, I was referring to 1933 there.

5 Q. 1933? A. Yes.

Q. What was the figure for 1933? A. My figure for wages charged to capital account is \$33,570.

Q. What would 25% of your pay roll be for that year? A. About \$250,000.

10 Q. So that out of about \$250,000, only \$33,000. was charged to capital account and the rest to profit and loss? A. Yes, that is right. You will see if you could follow the figures I read out that the previous year -- I do not believe Mr. Glasco had the percentage in the previous year but it may have been even greater than 25.

15 Q. Probably you could tell us how much of the wages for that period were charged to capital and how much to profit and loss? A. No, I am afraid I have not got the data. I have the total pay roll but I haven't got the total charged to repairs but Mr. Howson has it in his figures. They have already been put in. These figures would be supplementary to Mr. Howson's figures."

25 Now, if we just had the letter; in the letter that was filed Mr. Gordon makes it fairly clear, according to my recollection, in that letter. Then, down on page 13701 --

30 "Q. You say the amount of wages expended on repairs may have amounted to more than 25% of the pay roll?

127

"Gordon's Billworth that was filed during Mr. Howson's
evidence you said that 25% of the pay roll was
taken up during one of these years? A. Yes, I
was referring to 1933 there.
Q. 1933? A. Yes.
Q. What was the figure for 1933? A. My figure
for wages charged to capital account in 1933, \$70,
Q. What would 25% of your pay roll be for that
year? A. About \$20,000.
Q. So that out of about \$80,000, only \$20,000 was
charged to capital account and the rest to profit
and loss? A. Yes, that is right.
Q. Now if you would follow the figures I read out the
previous year -- I do not believe Mr. Howson
had the percentage in the previous year but it may
have been even greater than 25%.
Q. Probably you could tell us how much of the wages
for that period were charged to capital and how
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was filed Mr. Gordon makes it fairly clear, according
to my recollection, in that letter. Then, down on page
12701 --
Q. You say the amount of wages expended on repairs
was about 25% of the pay roll?

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"A. The pay roll the previous year amounted to \$1,178,000 and it would be merely an estimate on my part that there was \$250,000 of that construction"--

Now, construction is construction,

5 "-- but I know that by 1933 we had finished putting in most of the capital account work such as putting in new machinery and we were engaged chiefly in repairing buildings and re-pointing the rather extensive masonry out there and various other jobs. I can remember we had a list of about sixty jobs, 10 separate repair jobs at that time, which were really repairs".

Now, you see he takes the depreciation and then goes and charges to operations account all these charges --

15 MR. HEWARD: No, Mr. McRuer, he did not take the depreciation. There was no depreciation in 1928, 1929, 1930, 1931 or 1932. There was no depreciation written off. They started to write depreciation again in 1933 and wrote \$200,000. In 1934 they wrote \$322,000 20 and in 1935 \$330,000. For five years there had been no depreciation.

MR. McRUER: It is the year 1933.

MR. HEWARD: Yes, but the five previous years there 25 had been no depreciation.

MR. McRUER: They took depreciation at \$250,000 on the repairs; that is correct, isn't it?

MR. HEWARD: They took depreciation -- I don't know about \$250,000.

30 MR. McRUER: That is according to Mr. Gordon's estimate, and the repairs in addition.

14100

"A. We will say the depreciation was \$1,000,000."

\$1,175,000 and it would be merely an estimate on

my part that there was \$250,000 of that depreciation."

Now, construction is construction.

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in most of the capital account work and as put in

in new machinery and we were engaged chiefly in

repairing buildings and re-painting the water

extensive masonry on there and various other jobs.

I can remember we had a list of about sixty jobs.

separate repair jobs at that time, which were not

included.

Now, you see he takes the depreciation and then goes

and charges to operations account all these charges --

MR. HEWARD: No, Mr. McRae, he did not take the

depreciation. There was no depreciation in 1933, 1934,

1935, 1936 or 1937.

off. They started to write depreciation again in 1938

and wrote \$300,000. In 1939 they wrote \$325,000

and in 1935 \$250,000. For five years there had been no

depreciation.

MR. McRAE: It is the year 1938.

MR. HEWARD: Yes, but the five previous years there

had been no depreciation.

MR. McRAE: They took depreciation at \$250,000

on the repairs; that is correct, isn't it?

MR. HEWARD: They took depreciation -- I don't know

about \$250,000.

MR. McRAE: That is depreciation on the repairs.

depreciation, and the repairs is depreciation.

MR. HEWARD: I do not understand the reference to \$250,000 there, but what he refers to is -- we haven't the letter before us. We certainly did not write off any depreciation for five years previous.

5 MR. McHURER: I hope my friend is not trying to get this confused. Here is the straight position. During 1933 they wrote off for repairs, and charged to repairs \$44,091.28. They wrote off and charged out of profits to mill supplies \$217,987, mill supplies and equipment, 10 and in addition to that they charged to the wages account this \$250,000. Now, there is no use of my friend trying to say "well, this is repairs and that is repairs, and mill supplies and equipment". They have got their mill supplies and equipment; they have got their repairs 15 and they charged this into wages account at the same time.

MR. HEWARD: Mr. Gordon has explained that all wages are charged into wages account.

20 MR. McHURER: It is the whole trouble with the accounting system, and that is they cannot come forward now and say how much of this was capital expenditure, and what was it expended for, and it is an extremely important aspect when there is an income tax to be paid on the profits of the company.

25 MR. HEWARD: We will defend that at the proper time if there is a claim.

MR. McHURER: I say it is an important aspect, and we are talking about a company that gets a privilege 30 from the Government and the manner in which it treats us when we investigate its affairs.

MR. HAWARD: I do not understand the reference to

\$250,000 there, but what he refers to is -- we haven't

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MR. McNEIL: I hope my friend is not trying to get

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was it expended for, and it is extremely important

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profits of the company.

MR. HAWARD: we will defend that at the proper time

if there is a claim.

MR. McNEIL: I say it is an important aspect, and

as the witness says a company lost over a million

from the Government and the money is used to create

an even larger loss for the

" It must also be borne in mind that the profits, as stated in the annual statements, are further effected by the fact that Mr. Gordon has admitted that there was an inventory reserve in Montreal Cottons Limited, particulars of which are not yet available."

It is unfortunate, in order to clear up this whole question, that we have not got that. What Mr. Gordon said was this that when the management changed they adopted -- or rather, I don't know if it is when the management changed or the control changed, but, at any rate, in the last few years they adopted a different policy in the method of valuing the inventory, and they put into effect the same policy, or the same methods, as were used by the Dominion Textile Company, and that would be that the inventory was not valued at cost or market whichever was lowest, but was valued on a lesser basis, and introducing that method of valuation, the new method of valuation into the company's business it would materially affect the profits that were shown on the balance sheet. So that when this company can say "we cannot pay a dividend on this stock over this period of depression" we have two or three things outstanding; one is the charges to equipment having been increased tremendously over the period of the depression years, the charges to repairs, the revamping of the plant going on at the same time, and the new system of valuation of inventory put into effect which was a method which arrived at a value that was less than cost or market, whichever was the lower.

1910

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market whichever was lower, but was valued on a lesser
basis, and introducing that method of valuation, the
new method of valuation into the company's business
it would materially affect the profits that were shown
in the balance sheet. So that when this company was
put on a new basis, a dividend was declared, and the
profits of the company, as they were then, were
valued; and in the course of the year, the
inventory was valued at the same time, and the new system of
valuation of inventory put into effect, which was a
change in the method of valuation, and the result was that

MR. HEWARD: There is no proof that the new system valued them at less than had been done on the old system. There is no proof at all, because, as Mr. Gordon told us, they could not find out under the old system on what basis the inventories had been valued.

MR. McRUER: Does Mr. Gordon suggest that Sir Charles Gordon was president of this company for nine years and did not know the basis on which the inventory was valued?

MR. HEWARD: He told you in his evidence, and I think Mr. Gordon has always been very frank in his evidence, and never held anything back. He told you in his evidence that he did not know, how the old manager seemed to be the only person who knew on what basis the inventories were valued, and that they set up their standard basis when they took control.

MR. McRUER: If my friend puts that interpretation on Mr. Gordon's evidence I would suggest it is incredible to suggest that a man of Sir Charles Gordon's experience, as president of the company, would not have any idea on what basis the inventory was valued when the balance sheet was brought in. To me it is incredible, and I think to any other body it would be incredible.

MR. HEWARD: He relied on his technical management, probably, and as Mr. Gordon has said the actual administrative control was not taken over until after 1930, some time after 1930. We fixed the date yesterday. I think it was 1932.

1947

MR. BARNARD: There is no proof that the new

system valued them at less than had been done on

the old system. There is no proof at all, because,

as Mr. Gordon told us, they could not find out under

the old system on what basis the inventories had been

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MR. BARNARD: Does Mr. Gordon suggest that the

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and did not know the basis on which the inventory was

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MR. BARNARD: He told you in his evidence, and I think

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would not have any idea on what basis the inventory

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it would be incredible.

MR. BARNARD: He relied on his technical management,

probably, and as Mr. Gordon has said the actual

administrative control was not taken over until after

1940, when Sir Charles Gordon was still in control.

day. I think it was 1932.

5 MR. McRUER: Sir Charles Gordon was president of the company since 1921 or 1922, and signed several balance sheets with the surpluses on them that we will deal with. But when my friend comes and says "you have not got evidence of this and you have not got evidence of that" I would think that there, at least, it ill becomes an industry that has had the benefit this industry has had to say "you have not found out this about this and you have not found out that about this". It would be much more becoming, as I say with some emphasis later on, if they came more frankly and put their cards on the table when they were asking for a privilege.

15 MR. HEWARD: I think that is a most unfair statement. We have given all the information that we have been asked for, and tried to get a lot which we didn't have on our records, and what I am saying is not "you have not found out this about this and you have not found out that", but when my learned friend comes forward and makes a statement that such and such is the case, and we take exception to that on the ground that it is not based on the evidence, I don't think it should be thrown in our teeth and said we are trying to hold something back. We have given everything that we have been asked for, and Mr. McRuier has said so a number of times here, and Mr. Howson, in his evidence, said we made every effort to co-operate with him.

30 MR. McRUER: I say this that when we ask for something specific we get the information, but I will just

MR. McLENNAN: Sir Charles Gordon was president of

the company since 1881 or 1882, and signed several

balance sheets with the signatures on them that we

will deal with. But when my friend comes and says

"you have not got evidence of this and you have not

got evidence of that" I would think that there, at

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in his evidence, said we made every effort to co-oper-

ate with him.

MR. McLENNAN: I say this that when we ask for some-

thing specific we get the information, but I will say

read what was said about this matter of inventory by Mr. Gordon at page 13701, and if my friend is going to interrupt and abuse me at every step I take we will be here a long long time.

5 MR. HEWARD: I will try not to do that, either to interrupt or abuse. I didn't think it was abuse.

MR. McRUER: Of course, it is one method of defending a bad case, to abuse counsel on the other side.

MR. HEWARD: I didn't think it was abuse, Mr. McRuer.

10 MR. McRUER: Whatever we may do about his clients I will not say anything about my friend, anyway (Referring to Mr. Bruneau). We will go to the foot of the page, page 13701.

15 "Q. Now, to come to another matter; can you tell me on what basis the inventories of the Montreal Cotton Company are taken? A. Well, I would say, sir, that so far as my connection with them goes that their basis has been very close to the Dominion Textile methods.

20 Q. Very close to them? A. I would say it is the same principles."

Now, we don't even get the information here as to exactly how it is done; it is close and it is the same principles.

25 "Q. The same principles but there may be variations in it? A. Well, I don't want to be too specific. I would have to check it year by year." So there apparently was a variation from year to year; he is not sure of that, at any rate.

30 "Q. And had those principles obtained prior to the

what was said about this matter or inventory by

the inventory of the inventory, but it is not

to inventory and advise me at every step I take we will

be here a long long time.

MR. HENARD: I will try not to do that, either to

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MR. HENARD: Of course, it is one method of doing

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MR. HENARD: I didn't think it was about, Mr. HENARD

MR. HENARD: Whatever we may do about his office

I will not say anything about my friend, anyway (Hester)

to Mr. HENARD, we will go to the foot of the page,

the inventory,

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A. Well, I don't want to be too

specific. I would have to check it year by year."

so there apparently is a variation from year to year;

he is not sure of that, at any rate.

"9. And had those principles obtained prior to the

"Dominion Textile taking over control of the company?"

A. I don't know actually. The man who was there before we took hold was an individual of a very individualistic type of mind and he kept these things under his own hat."

Now, Mr. Gordon doesn't say he doesn't know, and doesn't know on what principles. He says "I don't know exactly".

"Q. Of course, his method of keeping his inventory could not stay under his hat very well; wouldn't there be records of it? A. The record -- insofar as the inventory was concerned it was made up according to his ideas but what his ideas were he did not put on paper. The result of his ideas was there."

Now, he doesn't say they didn't know what they were -- MR. HEWARD: Will you carry on, please?

MR. McRUER: "Q. Wouldn't he have some way of keeping track, an inventory book, that would show any discounts that were taken, and so on?"

A. I don't know that there was, sir."

He says he doesn't know there was a book.

"A. (Continued). From what I have heard of his method when inventory time came he gave out certain figures to the people that were taking the inventory and they worked on those figures."

Now, there was more known about this. It was not such a great mystery.

MR. HEWARD: Now --

MR. McRUER: I am going on. I am commenting. Don't

1897

"Dominion Textile taking over control of the company
 A. I don't know whether it was his hat or not
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 doesn't know on what principles. He says "I don't know
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 could not stay under his hat very well; wouldn't
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 far as the inventory was concerned it was made up
 according to his ideas but what his ideas were
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he doesn't say they didn't know what they were --
 MR. HENARD: Will you stop, please?

MR. McLEOD: "4. Wouldn't he have some way of
 keeping track of his inventory? A. I don't know that there was, sir."

he says he doesn't know there was a book.

"A. (Continued). From what I have heard of his
 method when inventory time came he gave out cards
 to the men in the store to take the inventory
 and they would go down the list.
 Now, there was no book where this. It was not such
 a simple matter."

MR. HENARD: Yes --

MR. McLEOD: I am not sure, I am not sure.

be nervous. I know it is a subject my friend may have to meet later on.

MR. HEWARD: I wish you would complete reading the evidence on it.

5 MR. McRUER: I am going to complete it.

"Q. That is a most extraordinary way. I am not blaming you for it. I want to know just in what way it was done. You say it was told you that the manager gave out certain figures to the people that were going to take inventory and then they worked on them?"

10 A. I mean they used them, they used the data he gave them to make the extensions.

Q. They had the value he gave them before they had taken inventory? A. No, the quantities were all there in the plant. They had to have unit values to make their extensions, to work out the values and his action was to give them the information which put them in a position to do that."

15 Now, he knows pretty well how it was done.

20 "Q. And since you took hold, at any rate, the system was changed and you did not operate on that system any further but closely followed the system of the Dominion Textile Company? A. Yes. If our system happened to be the same as his it would be a pure fluke.

25 Q. So in order to find out the true position of the company we would have to make the same calculations we have made in respect to the Dominion Textile

30 Company? A. Yes, and compare them with the figures set up in the last years."

be nervous. I know it is a subject my friend may have to meet later on.

MR. BARNES: I wish you would complete reading the evidence on it.

MR. McHUGH: I am going to complete it.

"That is a most extraordinary way. I am not

blaming you for it. I want to know just in what

it was done. You say it was told you that the men

gave out certain figures to the people that were

going to take inventory and then they worked on that.

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them to make the extensions.

Q. They had the value he gave them before they

had taken inventory? A. No, the quantities

were all there in the plant. They had to have said

values to make their extensions, to work out the

values and his action was to give them the information

which put them in a position to do that."

Q. Now, the next time you saw him in the plant,

"5. And since you took hold, at any rate, the system

was changed and you did not operate on that system

any further but closely followed the system of the

Dominion Textile Company? A. Yes. If our system

happened to be the same as his it would be a good

thing.

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company we would have to make the same calculation

we have made in respect to the Dominion Textile

Company? A. Yes, and compare them with the

figures set up in the last year."

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Now, that is the Montreal Cotton Company, and it is quite apparent it is idle to say that nobody knew how it was done, that this manager was the only man that knew. They knew what the results were and they would know whether the results were cost or market, whichever was lowest, or showed above or below it.

10

The evidence quite clearly shows they knew a great deal about how it was done, but to say that this man had a formula that he worked out and he kept it pretty well under his own hat -- and I expect likely there were advantages in keeping it under his hat and it may be a matter of some difficulty for those charged with other responsibilities to follow that hat up a bit and find out if they can what is under it.

15

Now, that is all I have to say about Montreal Cottons. We go to the Wabasse Cotton Company. Mr. Kellock is not here.

MR. HEWARD: He said he was going to be here.

MR. McRUER: Nor Mr. Lajoie.

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MR. HEWARD: Mr. Kellock told me last night he was going to be here.

MR. BRUNEAU: I think Mr. Lajoie said he would come back in March.

25

MR. McRUER: Well, we will be glad to see him.

(page 14580 follows)

30

Now, that is the Montreal Cotton Company, and it is quite apparent it is idle to say that nobody knew how it was done, that this manager was the only man that knew. They knew what the results were and they would know whether the results were good or bad, whichever was lowest, or showed above or below it. The evidence quite clearly shows they knew a great deal about how it was done, but to say that this man had a formula that he wanted out and he kept it pretty well under his own hat -- and I expect finally there were advantages in keeping it under his hat and it may be a matter of some difficulty for those charged with other responsibilities to follow that hat up a bit and find out if they can what is under it. Now, that is all I have to say about Montreal Cotton Co. go to the Wabasso Cotton Company. Mr. Kellogg is

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was going to be here.

MR. HAWARD: I think Mr. Lejole said he would be

back in March.

MR. HAWARD: Well, we will be glad to see him.

(1-12-1911)

Well, what I have to say I will stick very closely to the Brief in regard to the Wabasso Cotton Company and it will be taken down. I will go over it. I think, as a matter of fact, I have set out the details in respect to it as carefully as I can in the Brief. In the absence of Mr. Kellock criticising anything that is said here there is not much gained by enlarging on it.

The important part of the matters in respect to Wabasso Cotton Company is the fact that all the common stock that was issued in this Company was bonus stock except for about \$13,000 in real estate - that is, of the original stock. There was some real estate to be turned over to the Company together with an agreement for a bonus of \$75,000 from the City of Three Rivers. The stock was partly used as a bonus to the bond holders, the business was financed by a bond issue all the way through until we get down to the later issue of common stock for which there was cash paid. The way this Company did was to start off with an agreement between Mr. Whitehead and his associates and the City of Three Rivers and then they sold bonds and gave part of the common stock as a bonus, about 20%, and used the money realised from the bonds to construct the plant and building.

When they came to build their St. Maurice Plant the same procedure was gone on with. As a matter

Well, what I have to say I will stick very close
to the brief in regard to the Yabasco Cotton Company
and it will be taken down. I will go over it.
I think, as a matter of fact, I have set out the
details in respect to it as carefully as I can in the
brief. In the absence of Mr. Kallouk outlining
anything that is said here there is not much gained
by enlarging on it.
The important part of the matters in respect
to Yabasco Cotton Company is the fact that all the
common stock that was issued in this Company was
stock except for about \$13,000 in real estate -
that is, of the original stock. There was none
real estate to be turned over to the Company together
with an agreement for a bonus of \$75,000 from the
City of Three Rivers. The stock was partly
used as a bonus to the bond holders, the business
was financed by a bond issue all the way through
until we got down to the later issue of common stock
for which there was cash paid. The way this
Company did was to start off with an agreement between
Mr. Whitbread and his associates and the City of
Three Rivers and then they sold bonds and gave part
of the common stock as a bonus, about 20%, and
used the money realized from the bonds to construct
the plant and building.
When they came to build their St. Maurice Plant
the same procedure was gone on with. As a matter

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of fact the St. Maurice Plant was just an extension of the Tabasso Plant but organized under another Company because had they attempted to float a bond issue for the purpose of building that plant they would have had to take a second mortgage bond issue and they organized another company but there is only a line drawn through the wall separating the two plants, and they have now been brought together in one consolidation and one bond mortgage covering the whole plant.

I still have something to say about the Dominion Textile at pages 198 -199.

Now, this is a summary, my lord, in respect to the business of these cotton companies.

"It is submitted that the record of these four large cotton companies doing business in Canada is substantial proof of the benefits the cotton manufacturers have derived from the protective tariffs in force during the last sixty years in Canada.

Exhibit 998 shows the record of the Cotton companies doing business in Canada during the last ten years."

I am just taking ten years, five of which were depression years and five of which were the free-pre-depression years.

"In considering these statements, it must be borne in mind that in the capital employed,

of fact was \$4. The fact that it was \$4 is an extension
of the above plant but or failed under another
company because they attempted to float a bond
issue for the purpose of building that plant they would
have had to take a second mortgage bond issue and the
organized another company but there is only a line
drawn through the wall separating the two plants,
and they have now been brought together in one con-
solidation and one bond mortgage covering the whole
plant.

I still have something to say about the Dominion
textile at pages 138-139.

Now, this is a summary, my lord, in respect to
the business of these cotton companies.
It is admitted that the record of these four
large cotton companies doing business in Canada
is substantial proof of the benefits the cotton
manufacturers have derived from the protection
granted in force during the last sixty years
in Canada.

Exhibit 288 shows the record of the cotton
companies doing business in Canada during the
last ten years.
I am just taking ten years, five of which were
protection years and five of which were the free-
trade years.

In considering these statements, it must
be borne in mind that in the capital employed,

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in all cases, is included accumulated surplus
and does not give effect to undisclosed profits
that may have been made but concealed by adjust-
ments of inventory, or over depreciation of
assets, or the charging of improvements and
betterments to operating account. It will
be noted that throughout the whole period,
all the companies taken together have made profits,
both on the capital employed as represented
by books of the companies and on capital
employed after adjustments have been made for
inflation of assets by writing up their value in
the books of the companies, have been allowed
for. These companies all seem to have been
carried through the depression period without any
substantial impairment of assets and they have
all been able to pay substantial dividends on
the money invested when bonus stock has been
eliminated.

Mr. Howson has prepared a summary from
a report of the Federal Trade Commission of the
United States of America on the Textile Industry
during the years 1933, 1934, showing the earnings
of a group of 296 companies (Exhibit 1291) and
in the year 1935, 302 companies, combining both
spinning and weaving of cotton goods in the
United States of America. The following table
indicates that the Canadian mills have been

in all cases, in included accumulated surplus
and also the effect of the
that may have been made but concealed by adjustment of
ments of inventory, or over appreciation of
assets, or the charging of improvements and
betterments to operating account. It will
be noted that throughout the whole period,
all the companies taken together have made profits
both on the capital employed as represented
by books of the companies and on capital
employed after adjustments have been made for
inflation of assets by writing up their value in
the books of the companies, have been allowed
for. These companies all seem to have been
carried through the depression period without any
substantial impairment of assets and they have
all been able to pay substantial dividends on
the money invested when bonus stock has been
issued.
The following table shows the earnings
a report of the Federal Trade Commission of the
United States of America on the textile industry
during the years 1933, 1934, 1935, showing the earnings
of a group of 250 companies (Exhibit I) and
in the year 1935, 302 companies, combining both
spinning and weaving of cotton goods in the
United States of America. The following table
indicates that the losses which have been

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sustained during the depression by a far greater degree than the American Mills."

THE COMMISSIONER: What do you mean, "have been sustained by a far greater degree"?

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MR. McRUER: Well, by the consumers. Take now, for instance, my lord,--

THE COMMISSIONER: I thought you meant they had more tariff protection than the American mills.

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MR. McRUER: This is the return on total investment in operation after eliminating goodwill. That is, with the tariff protection they have had, they have been able to make a better return than the American mills.

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THE COMMISSIONER: They have been sustained, then, through tariff protection?

MR. McRUER: Yes, They are quite ready to confess that. They won't admit that they could not sustain themselves without it.

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MR. BRUNEAU: Is Exhibit 998 for the four companies, Mr. McRuer?

MR. McRUER: I am dealing with the four companies.

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MR. BRUNEAU: Are these all the Canadian Cotton companies or just the four?

MR. McRUER: This is made up from the four large companies.

MR. HEWARD: Exhibit 998?

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MR. McRUER: Exhibit 998 covers all the Canadian companies.

1881

CANADA

1881

sustained during the depression by a far greater

degree than the other mills.

THE COMMISSIONER: What do you mean, "have been

sustained by a far greater degree?"

MR. MORSE: Well, by the commission. Two now,

the commission, the commission.

THE COMMISSIONER: I thought you meant they

had more tariff protection than the American mills.

MR. MORSE: This is the return on total investment

in operation after eliminating goodwill. That is,

with the tariff protection they have had, they have

been able to make a better return than the American

mills.

THE COMMISSIONER: They have been sustained,

and, indeed, with investment

MR. MORSE: Yes, they are quite ready to

confess that. They won't admit that they could not

sustain themselves without it.

MR. BROWN: Is Exhibit 108 for the four companies?

MR. MORSE:

MR. MORSE: I am dealing with the four companies.

MR. BROWN: Are these all the Canadian cotton

companies or just the four?

MR. MORSE: This is made up from the four large

companies.

MR. BROWN: Exhibit 108?

MR. MORSE: Exhibit 108 is the same as Exhibit 107.

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MR. HEWARD: When you come along to Exhibit 917 - it is right on the next page, Dominion Textile Company, Exhibit 917, will you give me the page number, where these figures are derived from, from what pages, the percentage figures.

MR. McRUER: Well, it will be worked out from that. Mr. Howson will look that up. Now, this is the return on the total investment in operation after eliminating goodwill, and the American return is worked out in the same way, and that means this: that it is giving them every consideration. That is, that on the surplus that you have built up through earnings, after paying these large dividends, after paying dividends on bonus stock and all that sort of thing, giving you credit for that surplus in the earnings you have had on it, the Dominion Textile Company shows in 1933, 15.60%, and all the Canadian Companies taken together show 8.07%. The American Companies, 6.45%. In 1934 the American companies showed 1.28%; the Canadian companies 7.91% and the Dominion Textile Company 10.30%. In 1935 the American companies showed a loss of 1.04%; the Canadian Companies 7.17% earning on the total investment. The Dominion Textile Company 8.07%.

MR. BALLANTYNE: Could we find out from Mr. Howson later where he gets those figures. I cannot find them in his Exhibit here.

MR. McRUER: Yes, I will have Mr. Howson sit down

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MR. BRYDIE: When you come along to Exhibit 217 -
it is right on the next page, Dominion Textile Company.
Exhibit 217, will you give me the page number.
the percentage figures.

MR. BRYDIE: All, it will be worked out from that.
Mr. Howson will look that up. Now, this is the
return on the total investment in operation after
eliminating goodwill, and the American return is
worked out in the same way, and that means this:
that it is giving them every consideration. That is,
that on the surplus that you have built up through
earnings, after paying these large dividends, after
paying dividends on bonus stock and all that sort of
thing, giving you credit for that surplus in the
earnings you have had on it, the Dominion Textile
Company shows in 1983, 1984, and all the Canadian
Companies taken together show 3.07%.

Companies, 6.45%. In 1984 the American companies
showed 1.82%; the Canadian companies 7.21% and the
American companies showed a loss of 1.04%; the Canadian
companies 7.17% and the American companies 6.07%.

MR. BRYDIE: Could we find out from Mr. Howson
later where he gets those figures. I cannot find
them in the exhibit page.

with you and show how they are worked out. Now, the return on Capital Stock Equity after eliminating goodwill of the companies we find the American companies have a return of 6.70%; on the Canadian companies, 10.56% and the Dominion Textile Company 29.82%. In 1934 the American companies, 0.30%; the Canadian companies 9.13% and the Dominion Textile 13.84%. In 1935 the American companies show a loss of 2.30%. The Canadian companies an earning of 7.78% and the Dominion Textile Company 10.93%. At another point I give a comparative statement of the British companies and the Canadian Cotton companies. It is taken from a brief prepared by Mr. Hallam on information given by Mr. Gordon in a letter that is on file to Mr. Hallam, I think. That is, during these times the British companies scarcely any of them, were able to pay dividends - a very small percentage of them at any rate, of those listed on the Oldham Stock Exchange and the dividends amounted to 1/10th of 1% or something like that on the capital employed in the industry. So that through the depression period these cotton companies have been carried through in this very fine way that I am sure a great many industries in Canada would like to have been carried through. Now, when we face another period in the future it seems to me that the consumers are entitled to say; well, you have been carried through well for the

with you and show how they are worked out. Now, the return on Capital Stock Equity after eliminating goodwill of the companies we find the American companies have a return of 5.70%; on the Canadian companies, 10.56% and the Dominion Textile Company 10.84%. In 1934 the American companies, 0.50%; the Canadian companies 9.13% and the Dominion Textile 10.84%. In 1935 the American companies show a loss of 2.50%. The Canadian companies an earning of 7.70% and the Dominion Textile Company 10.84%. At another point I give a comparative statement of the British companies and the Canadian Cotton companies. It is taken from a brief prepared by Mr. Hallam on information given by Mr. Gordon in a letter that is on file to Mr. Hallam, I think. That is, during these times the British companies scarcely any of them, were able to pay dividends - a very small percentage of them as any rate, of those listed on the Oldham Stock Exchange and the dividends amounted to 1/10th of 1% or something like that on the capital employed in the industry. So that through the depression period these cotton companies have been carried through in this very fine way that I am sure a great many industries in Canada would like to have been carried through. Now, when we face another period in the future it seems to me that the consumers are entitled to say:

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last thirty years and now we do not think we ought
to be taxed forever in the manner that we have been
taxed through the depression when we have our limited
buying power to sustain you. Because they cannot
argue that this record of earnings is not out of the
consumer because they say they could not do it if the
tariff protection was any lower, and they say it is
too low now.

That is all I have to say about the cotton companies.
Is there any word of Mr. Kellock?

MR. BALLANTYNE: I phoned him and told him.

THE COMMISSIONER: Is he better?

MR. BALLANTYNE: Yes, I think he had intended to
be here this morning.

MR. McRUER: We might have our ten minutes now.
It is nearly the half hour.

THE COMMISSIONER: We will adjourn for ten minutes.

-- Adjourned at 11.20 A.M.

-- On resuming at 11.35 A.M.

MR. McRUER: Then in reference to the Real Silk
Division of the industry, my lord, one or two important
things stand out and that is, that in 1926 there
were six of the companies reporting to the Government
in business, and in 1930, nine, and in 1934, sixteen.
The Broad Silk Industry had its inception in Canada
in about 1933. In 1926 the Belding-Corticelli had
53.7% of the business, but it is fair to say this
in regard to the Belding-Corticelli Company that it is

last thirty years and now we do not think we ought
to be taxed forever in the manner that we have been
taxed through the depression when we have our limited
resources. It is not out of the
question that this record of earnings is not out of the
question because they say they could not do it if the
tariff protection was any lower, and they say it is
too low now.

That is all I have to say about the cotton companies.
Is there any word of Mr. Kellock?

MR. BAILLANTYNE: I phoned him and told him.

MR. BAILLANTYNE: Yes, I think he had intended to
be here this morning.

MR. MEMOR: We might have our ten minutes now.

It is nearly the half hour.

THE CHAIRMAN: We will adjourn for ten minutes.

-- Adjourned at 11.30 A.M.

-- On resuming at 11.35 A.M.

MR. MEMOR: Then in reference to the Real Silk

Division of the industry, my friend, one or two important

things came out and that is, that in 1933 there

were six of the companies reporting to the Government

in business, and in 1933, nine, and in 1934, sixteen.

The Broad Silk Industry had its inception in Canada

in about 1923. In 1928 the Real Silk Industry had

about 100 companies, and it is now about 150.

not exactly comparable - although it is in the Silk Division and was put in the Silk division at the Price Spreads Enquiry - it is not exactly comparable with a company like Associated Textiles, for instance, because Belding-Corticelli manufacture braids, ribbons and things of that nature, in addition to the other silk fabric they manufacture. It has quite a diversified line. It is a merger of four competing silk companies. The merger was effected in 1911, and I think my Brief pretty well sets out ---

MR. BRUNEAU: Perhaps you might just make a slight clerical correction, 25,000 shares instead of 2,500 shares on page 201.

MR. McRUER: There is one thing that we did not find out in connection with the merger. It was put through by a financial house in Montreal and we were unable to find out how much of the common stock that was issued went to the syndicate or organization of the merger. The Companies set up on its books a goodwill account amounting to \$984,323.56, of which \$749,500 was issued in common stock and the balance \$234,823 in preferred shares, so that we have ---

MR. BRUNEAU: The figures give \$948,000 in one place, and \$984,000 in another. The figures have just got twisted around.

THE COMMISSIONER: Whereabouts?

MR. McRUER: At the second line on page 202 it is \$948,000 and about half-way down the page, 203,

it is \$984,000. Mr. Howson will look it up and see which is the correct figure. So that your lordship

will see that the common stock of this company was set up in the books as against goodwill and a large part of it preferred stock, and I say "On account of

Common Stock so issued, \$524,650 has been paid in dividends since 1911, and \$406,830 in dividends on account of the Preferred Stock so issued."

So that a total of \$930,000 has been paid in dividends on account of stock that was issued as against good-

will and they have written down all the goodwill accounts in their books to one dollar. So this

company has shown a pretty fair record of achievement.

I do not intend, my lord to give in detail what is set out in my brief in respect to the remaining silk companies. I have dealt with some of the outstanding ones here and then summarized on page 206

the matters affecting the representative companies.

Just in regard to ~~the~~ Associated Textile Company at page 204. That is a company, your lordship will

recollect, that started in 1929 and starting in new in Canada has done extremely well. It had certain

advantages in a bonus of \$60,000 from the good citizens of Louiseville, and its earnings have been good

and have been in addition to some large sums that have been paid to the American Company for supervision.

There is \$110,000 paid to the American Company efor

it is \$750,000. Mr. Brown will look it up and see which is the correct figure. So that your lordship

will see that the common stock of this company was set up in the books as against goodwill and a large part of it preferred stock, and I say "on account of"

Common stock so issued, \$324,800 has been paid in dividends since 1911, and \$400,000 in dividends on account of the preferred stock

so issued."

So that a total of \$724,800 has been paid in dividends on account of stock that was issued as against goodwill

will and they have written down all the goodwill

accounts in their books to one dollar. So this

company has shown a pretty fair record of conservatism

I do not intend, my lord, to give in detail what is

set out in my brief in respect to the remaining

with companies. I have dealt with some of the outstanding ones here and then summarized on page 203

the matters affecting the representative companies. Just in regard to the Associated Textile Company at

page 204. That is a company, your lordship will

recollect, that started in 1922 and starting in New

in Canada has done extremely well. It was certain

advantages in a bonus of \$50,000 from the good citizens

of Louisville, and its earnings have been good

and have been in addition to some large sums that have

been paid to the American Company for supervision.

That is the case with the American Company - the

supervision and the payment for executive salaries in this company have been very high. Take at the top of page 207 I summarize the earnings ---

5 MR. BRUNEAU: Might I correct that on page 203, the figure 948. Makes some little difference in the subsequent calculations because then you will see in the next line, my lord, the preferred shares will be cut down similarly by \$36,000.

10 THE COMMISSIONER: Which is the right figure?

MR. BRUNEAU: 948, and that cuts down the figure in the next line by \$36,000. It is the addition of the two.

15 THE COMMISSIONER: Which figure are you talking about?

MR. BRUNEAU: The next figure of 234 should be 198. Similarly dividends calculated on that 234 amounting to \$406,830, in the third line lower down, should be cut down by-- well, I have not worked out the figures.

20 MR. McRUER: Mr. Howson will work that out and we will have it inserted.

MR. BRUNEAU: It will be about \$70,000. It does not really make any substantial effect in the picture.

25 MR. McRUER: Well, we might as well have it accurate.

30 Now, the average profit on sales of these representative companies of the Silk Industry have been 7.4%, and, as your lordship will remember, as I explained

supervision and the payment for executive salaries in this company have been very high. Take at the top of page 207 I summarize the earnings ---

MR. BRUNEAU: Might I correct that on page 205, the figure 248. Makes some little difference in the subsequent calculations because then you will see in the next line, my lord, the preferred shares will be cut down similarly by \$30,000.

THE COMMISSIONER: Which is the right figure? MR. BRUNEAU: 248, and that cuts down the figure in the next line by \$30,000. It is the addition of the two.

THE COMMISSIONER: Which figure are you taking

MR. BRUNEAU: The next figure of 224 should be

198. Similarly dividends calculated on that 224 amounting to \$400,000, in the third line lower down, should be cut down by-- well, I have not worked out the figures.

we will have it inserted.

MR. BRUNEAU: It will be about \$10,000. It does not really make any substantial effect in the picture.

MR. BRUNEAU: Well, we might as well have it

active companies of the Silk Industry have been 7.45, and your lordship will remember, as I explained

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when Mr. Kellock was away, that the profit on sales has all been taken before bank interest in order that we may arrive at a uniform basis on account of one company financing on common stock and another one on bonds and another one on bank loans, etc.

THE COMMISSIONER: That is, one company financing on borrowed money it has to pay interest and the other financing without borrowed money.

MR. McRUER: Yes, money invested by the shareholders.

MR. KELLOCK: Of course, before you get the returns of the company ---

THE COMMISSIONER: Suppose you take two persons and one invests \$100,000 of his own money and the other has to borrow \$100,000 and pay 6% interest on it. Well, you must put them on the same basis to make a proper conclusion. You cannot say the second one because he borrowed money is to be enabled to earn more to give a profit to himself as well as pay his interest.

MR. KELLOCK: No, if you are considering the returns that the investor ultimately gets.

THE COMMISSIONER: What do you mean by the "Investor"? If he invests his own money he gets 10% but if he borrows the money he only gets 4%, because he has to pay 6% to the bank. They are both exactly the same.

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When Mr. Kellogg was away, that the profit on sales
has all been taken before bank interest in order that
we may arrive at a uniform basis on account of one
company financing on common stock and another one
on bonds and another one on bank loans, etc.
The Commission: That is, one company financing
on borrowed money it has to pay interest and the
other financing without borrowed money.
The Commission: Yes, money invested by the bank.
The Commission: Of course, before you get the
returns of the company ---
The Commission: Suppose you have two persons
and one invests \$100,000 of his own money and the
other has to borrow \$100,000 and pay 6% interest on
it. Well, you must put them on the same basis to
make a proper conclusion. You cannot say the
second one because he borrowed money is to be enabled
to earn more to give a profit to himself as well as
pay his interest.
The Commission: No, if you are considering the
investor? If he invests his own money he gets
10% but if he borrows the money he only gets 4%
because he has to pay 6% to the bank. They are

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MR. KELLOCK: It all depends, of course, my lord, if the thing is on a uniform basis. The capital is there no matter what the source is. That is one thing. If you do that the earnings on that may be uniform throughout but unless you do that, unless you include the money that is invested, no matter what the source is, you do not get a uniform result.

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MR. McRUER: You are talking about a different thing. I am talking about profits on sales. You are confusing it.

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THE COMMISSIONER: If both these investors get 10% profit on sales we do not care whether one has to pay part of that to someone he borrows the money from. That is his own business but the two of them should be on the same basis.

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MR. McRUER: It ultimately goes to investor anyhow.

THE COMMISSIONER: In one case the 10% is split between two investors, the lender and the borrower.

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MR. BRUNEAU: I want you to correct one other slight clerical error I have seen. On page 203, the fifth line from the bottom, you have the figure 273. I think that should be 237.

THE COMMISSIONER: Is that for the same reason again?

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MR. BRUNEAU: No, it is just turned around. You will see it mentioned on page 202. The figures have just got turned around.

MR. KILLICK: It all depends, of course, my lord,

if the thing is on a uniform basis. The capital
is there no matter what the source is. That is one
thing. If you do that the earnings on that may be
uniform throughout but unless you do that, unless
you include the money that is invested, no matter
what the source is, you do not get a uniform result.

MR. KILLICK: I am talking about profits on sales.
You are confusing it.

THE COMMISSIONER: If both these investors get
10% profit on sales we do not care whether one has
to pay part of that to someone he borrows the money
from. That is his own business but the two of them
should be on the same basis.

MR. MORRIS: It ultimately goes to investor and
how.

THE COMMISSIONER: In one case the 10% is split
between two investors, the lender and the borrower.
MR. BRUNEAU: I want you to correct one other
slight clerical error I have seen. On page 202,

the fifth line from the bottom, you have the figure
273. I think that should be 237.

THE COMMISSIONER: Is that for the same reason
again?

MR. BRUNEAU: No, it is just turned around. You
will see it mentioned on page 202. The figures

have just got turned around.

5 MR. McRUER: Will you check that up, Mr. Howson,
and we will have it put right. I think 237 is the
correct figure. Oh, there is no doubt about that,
I remember that. It is 237, it was not as high as
273.

MR. BRUNEAU: That would make a slight difference
in the calculation there again.

10 MR. McRUER: Well, that is providing that is not
a mistake in copying, that is all. Mr. Howson
will check that.

15 Now, we come to the Woollen Division, my lord.
This is a large division and it is composed of 32
different companies reporting to the Commission.
I think that is the very substantial part of the
Woollen Division, and it is a little different or
very different, for that matter, from the Cotton
Division. For instance, because we have not got
20 this same history of the growth of certain large
companies and the amalgamations that have taken place.
With the exception of the Dominion Woollens and Worsted
I think there is very little evidence of the Companies
that are engaged in the Woollen Industry having been
25 merged. They are individual companies carrying on
in an individual way. A great many of them are
British companies that have started up in business here
and many of them old Canadian companies.

30 I have set out in detail at pages 208 and 209

Q. Now, will you say what was the result of that?

A. And we will have it put right. I think 237 is the correct figure. Oh, there is no doubt about that, I remember that. It is 237, it was not as high as

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Q. Now, that would make a slight difference

in the calculation there again.

A. Mr. McNamee, well, that is providing that is not

a mistake in copying, that is all. Mr. Hanson

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Q. Now, what is the result of that?

A. Well, we have the Woolen Division, we have

Tala is a large division and it is composed of 23

different companies reporting to the Commission.

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I think that is the very substantial part of the

Woolen Division, and it is a little different or

very different, from that matter, from the Cotton

Division. For instance, because we have not got

this same history of the growth of certain large

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companies and the amalgamations that have taken place.

With the exception of the Dominion Woolens and Cottons

I think there is very little evidence of the companies

that are engaged in the Woolen Industry having been

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merged. They are individual companies carrying on

in an individual way. A great many of them are

British companies that have started up in business here

and many of them old Canadian companies.

I have set out in detail at pages 208 and 209

the approach that I have made to the study of the
affairs of these companies.

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the approach that I have made to the study of the
relative in some respects

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5 There are certain companies that are engaged in
specialty lines, such as Ayers Limited and Kenwoods,
and we have dealt with them separately. We have also
dealt separately with the Dominion Woollens and
Worstedes. I submit that we are justified in con-
sidering the earnings of these woollen companies in
eliminating completely Dominion Woollens and Worstedes
Limited. I read into the record the report of Mr.
10 Evans, who was appointed by the Bank of Montreal to
make a study of their business. He made a report
on the business of Dominion Woollens and Worstedes,
and I submit that a company that has the experience
of this concern, in respect of management and all
15 the other matters set out in Mr. Evans' report, cannot
be taken as any example on which to found a sound
policy for the future with respect to the woollen
industry. We have for instance the Forbes Company
coming into the merger, and up until that time it was
20 a very prosperous and happy company; but it got into
these evil associations and we find it becoming some-
what of a degenerate financially. When we study
the whole woollen industry, with the exception of
Dominion Woollens and Worstedes, we can see that
25 through the depression years the woollen companies
were carried very well by the consumers of Canada.
Exhibit 1017, at pages 9 and 10, deals with certain
representative companies. These may be classed as
showing good management and may be considered repre-
30 sentative of the industry, controlling as they do

There are certain companies that are engaged in specialty lines, such as Ryers Limited and Henswood, and we have dealt with them separately. We have also dealt separately with the Dominion Woolens and Worsted. I submit that we are justified in considering the earnings of these woolen companies in eliminating completely Dominion Woolens and Worsted Limited. I read into the record the report of Mr. Evans, who was appointed by the Bank of Montreal to make a study of their business. He made a report on the business of Dominion Woolens and Worsted, and I submit that a company that has the reputation of this concern, in respect of management and all the other matters set out in Mr. Evans' report, cannot be taken as any example on which to found a sound policy for the future with respect to the woolen industry. We have for instance the Forbes Company coming into the market, and up until that time it was a very prosperous and happy company; but it got into these evil associations and we find it becoming somewhat of a degenerate financially. When we study the whole woolen industry, with the exception of Dominion Woolens and Worsted, we can see that the business of the Dominion Woolens and Worsted were carried very well by the consumers of the wool. I submit that the business of the Dominion Woolens and Worsted is a very important one, and it may be classified as a very important one.

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fifty per cent of the business of the reporting company.

We cannot take all the companies and throw them together and say there must be an earning on capital that is invested in all these concerns, irrespective of management, and then average them that way. That is not sound. The record of earnings on capital employed from 1931 to 1935 is shown at page 212.

This group of companies that did fifty per cent of the business show the following earnings on capital employed in operations during the depression years from 1931 to 1935:

1931 5.8 %

1932 5.2 %

1933 9.0 %

1934 7.0 %

1935 10.7 %

Mr. KELLOCK: That is tangible capital employed.

Mr. McRUER: Yes. I am certainly not willing to concede that they are entitled to earnings on intangibles and goodwill and that sort of thing under tariff protection, because it is the tariff protection that gives them the goodwill. They cannot be expected to come and say, "You have given us goodwill and you must also give us a return on it."

That is too much. And now let us compare the foregoing with the figures for the pre-depression years from 1926 to 1930. Your Lordship will see that these companies have done better than they did during

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fifty per cent of the business of the operating

company.

e cannot take all the companies and throw them

away - and say that they are not worth anything

and that they are not worth anything, and that they

of management, and then average them that way. That

is not sound. The record of earnings on capital

employed from 1921 to 1925 is shown at page 113.

This group of companies that did fifty per cent of

the business show the following earnings on capital

employed in operations during the depression years

from 1921 to 1925:

1921	10.5
1922	8.2
1923	10.5
1924	10.5
1925	10.5

Mr. HELLER: That is tangible capital employed.

Mr. HELLER: Yes. I am certainly not willing

to concede that they are entitled to anything as

intangibles and goodwill and that sort of thing and

that protection, because it is the tariff protec-

tion that gives them the goodwill. They cannot be

expected to come and say, "I have given up and

will and you must also give us a return on it."

That is too much. And now let us compare the two

and let us compare the two companies and let us

compare the two companies and let us compare the two

companies and let us compare the two companies and

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5 the pre-depression years; so that if they have any
excuse at all for being here, I can hardly see how they
can justify the earnings indicated, with the lowered
purchasing power of Canada. I do not see how they
can justify higher earnings in the depression years
than those shown in the pre-depression period. The net
profit-- and if that word is offensive to my learned
friend, as apparently it is, we will say the profit
on sales--from 1931 to 1935 was consistently greater
10 than during the preceding five year period. In 1935
it was 8.5 as against 4.4 in 1929 or 3.5 in 1928. It
indicates, therefore that their profit on sales has
been higher and that they have been taking a real ad-
vantage of the tariff protection afforded them in 1930.
15 At page 213 is a table setting out the profit on sales
for the depression years and also for the pre-depression
years. When we come to look at the individual com-
panies, we shall see how some of them have got along.
20 Let us take the Brook Woollen Company at Simcoe. We
discovered that they had an earning, a net revenue
applicable to capital employed in operations, as follows.

25 Mr. KELLOCK: I do not think my learned friend
should use those words in the sense in which he uses
them.

The COMMISSIONER: What did Mr. McRuer say?

30 Mr. KELLOCK: The brief speaks of net revenue
applicable to capital employed and shows a table of
percentages as though those were the returns to the
company. They are returns before these expense

1935

the pre-depression years; so that if they have any
excuse at all for being here, I can hardly see how they
can justify the earnings indicated, with the lowered
purchasing power of Canada. I do not see how they
can justify higher earnings in the depression years
than those shown in the pre-depression period. The net
profit--and if that word is offensive to my learned
friend, as apparently it is, we will say the profit
on sales--from 1931 to 1935 was consistently greater
than during the preceding five year period. In 1935
it was 8.5 as against 4.4 in 1929 or 3.2 in 1928. It
indicates, therefore, that their profit on sales has
been higher and that they have been taking a real ad-
vantage of the tariff protection afforded them in 1930.
At page 215 is a table setting out the profit on sales
for the depression years and also for the pre-depression
years. When we come to look at the individual com-
panies, we shall see how some of them have got along.

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applicable to capital employed in operations, as follows:
Mr. KILLOCK: I do not think my learned friend
should use those words in the sense in which he uses
them.

The CHAIRMAN: What did Mr. Killock say?
Mr. KILLOCK: The brief speaks of net revenue
applicable to capital employed and shows a table of
as is though those were the returns to the
owners. They are returns before interest.

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charges come out.

Mr. McRUER: What expense charges?

Mr. KELLOCK: Before bank interest is taken care of.

5 The COMMISSIONER: The fact that one person has to borrow his money and pay interest upon it is no reason why he should be in a privileged position. He must be in the same position as the man who is not under the necessity of borrowing.

10 Mr. KELLOCK: My criticism, My Lord, has reference to the words "net revenue".

 The COMMISSIONER: Whether the profits are divided between two investors, the lender and the borrower, or go to one individual, it is a profit just the same.

15 Mr. KELLOCK: But what is the value to the commission in considering what is really a gross return to a company?

 The COMMISSIONER: You are using that word inaptly. You say "gross return". The fact is that it is a return, and what becomes of it is a different question. Whether it goes to one man who has invested his own money or to two men because one of them has had to borrow from the other is something that does not affect the nature of the return.

20 Mr. KELLOCK: But if one is considering how a company has got along under a certain tariff protection, I submit, My Lord, that it does make a difference.

25 The COMMISSIONER: Mr. McRuér is looking at it from the point of view of what the consumer paid and

1927

Mr. McHUGH: What expense charges?

Mr. KILGORE: Before bank interest is taken care

of. The fact that one person has to borrow his money and pay interest upon it is no reason why he should be in a privileged position. He must be in the same position as the man who is not under the necessity of borrowing.

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The COMMISSIONER: You are using that word implicitly. You say "gross return". The fact is that it is a return, and what becomes of it is a different question. Whether it goes to one man who has invested his own money or to two men because one of them has had to borrow from the other is something that does not affect the nature of the return.

Mr. KILGORE: But if one is considering how a

The COMMISSIONER: If you are considering how a

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what the company got from the consumer. Whether the company had to pay a part of it to the people from whom they borrowed money does, not, in my opinion, affect the situation. In what way do you say it does?

Are you going to put two companies on a different basis because one operates on capital that is not borrowed and the other operates on capital which it has had to borrow?

Mr. KELLOCK: I would be content to put all the share capital together, whether it is preferred or not, or even adding bonds.

The COMMISSIONER: It is capital nevertheless. Whether or not it is borrowed, the earnings are there.

Mr. KELLOCK: If you are comparing what a certain amount of capital has done in certain hands with what it has done in other hands, I can see the argument. But if you pick out an individual company and say that the net revenue applicable to the capital employed by that company is so much, then I submit that it is not right.

The COMMISSIONER: It is net revenue.

Mr. KELLOCK: Not for that company.

The COMMISSIONER: It is. The fact that the company has to pay interest to someone on money that it has borrowed on account of its capital does not affect the question that we are considering here. The question is as to what that capital has earned. If the capital earns ten per cent, the fact that you are in the hands of a usurer and have to pay out nine

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what the company got from the consumer. Whether the
company had to pay a part of it to the people from
whom they borrowed money, or not, in my opinion,
affects the situation. In what way do you say it does
affect you going to put two companies on a different
basis because one operates on capital that is not
borrowed and the other operates on capital which it
has had to borrow?

MR. KILGORE: I would be content to put all the
share capital together, whether it is preferred or
not, or even adding bonds.

THE COMMISSIONER: It is capital nevertheless.
Whether or not it is borrowed, the earnings are there.

MR. KILGORE: If you are comparing what a company
amount of capital has done in certain hands with
what it has done in other hands, it is not the same.

But if you pick out an individual company
and say that the net revenue applicable to the capital
employed by that company is so much, then I submit
that it is not right.

THE COMMISSIONER: It is net revenue.

MR. KILGORE: Not for that company.

THE COMMISSIONER: It is. The fact that the

company has to pay interest to someone on money that

it has borrowed or advanced to it is not the same as

the fact that it has to pay interest to someone on money that

it has borrowed or advanced to it is not the same as

if the capital earns ten per cent, the fact that you

are in the hands of a usurer and have to pay out nine

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per cent of it does not affect the situation. The capital has earned ten per cent, and that is the fact to be considered.

5 Mr. KELLOCK: Yes, My Lord, but when you come to consider the return--

The COMMISSIONER: Suppose you had to pay twenty per cent interest on the money you borrowed, are you entitled to a return of ~~twenty-six~~ per cent in order to allow you something fair for yourself? Can
10 you expect to pay your usurer twenty per cent and then make ~~six~~ per cent for yourself?

Mr. KELLOCK: I submit that if I have to incur certain expenses to earn a profit, that fact must be taken into account.
15

The COMMISSIONER: Expenses are a different matter; but you bring your capital and set it to work and it earns a certain amount. I do not care how you got the capital; I do not care whether it came to you as a gift, or whether you borrowed it, or whether you
20 had earned it and put it aside. That makes no difference at all. Here is so much capital and here is what it has earned, and that is the question to be considered. Unless you put all companies on that
25 basis you will obtain very improper results.

Mr. KELLOCK: I agree with that, when you are putting one company side by side with another. But when my learned friend gets down to individual cases, if you wish to see what this company has actually
30 earned for itself you cannot take that view.

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per cent of it does not affect the situation. The capital has earned ten per cent, and that is the best to be considered.

Mr. MILLER: Yes, Mr. Lord, but when you come to

consider the return--

The COMMISSIONER: Suppose you had to pay twenty

per cent interest on the money you borrowed, and you entitled to a return of twenty-six per cent in order

to allow you something fair for yourself? Can

you expect to pay your lender twenty per cent and then

make six per cent for yourself?

Mr. MILLER: I admit that if I have to incur

certain expenses to earn a profit, that fact must be

taken into account.

The COMMISSIONER: Expenses are a different matter

but you bring your capital and set it to work and it

earns a certain amount. I do not care how you get

the capital; I do not care whether it came to you as

a gift, or whether you borrowed it, or whether you

had earned it and put it aside. That makes no

difference at all. Here is so much capital and here

is what it has earned, and that is the question to be

considered. Unless you put all companies on that

basis you will make very different results.

Mr. MILLER: I agree with you, but you are

making one company aside by itself from another.

and of course (what you say is perfectly correct)

if you put in one what the others had made

and the others had made and that is

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5 The COMMISSIONER: It makes no difference for whom it is earned; it is earned. If you say that in the case of one company it is not to be called a net return because the capital has been borrowed whereas in the case of another company you will call it a net return because there has been no borrowing, you can see what confusion will result.

10 Mr. KELLOCK: You will have the same figure in each case.

15 The COMMISSIONER: I understand your submission, but in my opinion, to give effect to it, would have two classes of companies and there would be a different meaning attaching to the words "net return" with respect to each class.

Mr. KELLOCK: Should it not be necessary to find out what the shareholders as a class have received?

20 The COMMISSIONER: I do not care what the shareholders earn. I do not care whom they get their money from and what interest they pay. That may vary a dozen times from one company to another and we cannot take that into consideration. The proper principle is to say this is so much capital employed and to consider what that capital has earned.

25 Mr. KELLOCK: I shall have to argue the point later My Lord.

The COMMISSIONER: I will hear you on that point when your time comes.

30 Mr. SCRIVER: My learned friend's case in this respect is not a strong one, because I have worked it out

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The COMMISSIONER: It makes no difference to me
it is not. It is not. It is not. It is not.
case of one company it is not to be called a net return
because the capital has been borrowed whereas in the
case of another company you will call it a net return
because there has been no borrowing. You can see
what confusion will result.

MR. KILGORE: You will have the same thing in another
case.
but in my opinion, to give effect to it, would have
two classes of companies and there would be a differ-
ent meaning attaching to the words "net return" with
respect to each class.

MR. KILGORE: Should it not be necessary to find
out what the meaning of the words is in each case?
The COMMISSIONER: I do not care what the share-
holders earn. I do not care when they get their money
from and what interest they pay. That may vary a
good deal from one company to another and we cannot
take that into consideration. The proper principle
is to say this is so much capital employed and to
consider what that capital has earned.

MR. KILGORE: I shall have to express the point later
my Lord.
The COMMISSIONER: I will hear you on that point
when your time comes.

MR. KILGORE: My learned friend's case in this res-
pect is not a strong one. I have said it is not.

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also on the basis which he suggests, taking in the bank loan. It gives a bigger return, because they earned more than they paid in bank interest. I submit that the only satisfactory basis on which we can argue is the one that we have worked out.

The COMMISSIONER: What particular company are you referring to now?

Mr. McRUER: I am dealing now with the Brook Woollen Company of Simcoe. In 1931 their net revenue applicable to capital employed in operations was 43.1 per cent. Worked out on the basis of paying bank interest it would be 45.7 per cent.

Mr. KILLOCK: You take the bank loan out of capital and revenue out of revenue?

Mr. McRUER: Take the bank loan out of capital and revenue out of revenue and you have 45.7 per cent earned on capital employed. In 1932 the net revenue applicable to capital employed was 17.9 per cent and worked out on the other basis it would be 18.9 per cent. I submit, therefore, that the basis of our calculations is not unfair to this company. In 1933 the figure as given in the brief is 27.4 per cent and on the basis suggested by Mr. Killock it is 29.2 per cent. In 1934, according to the brief it was 17.3 per cent and in 1935 37.3 per cent. But what I was emphasizing was the comparison of these earnings by this company during the five year depression period with the pre-depression period. There is this to be said also. It will no doubt be advanced by my learned friend that

...in the bank
loan. It gives a higher return, because they earned
more than they paid in bank interest. I submit that
the only satisfactory basis on which we can argue is
the one that we have worked out.

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...
you referring to now?

Mr. KELLUM: I am dealing now with the book
called Company of America. In 1931 their net revenue
applicable to capital employed in operations was 45.1
per cent. Worked out on the basis of paying bank
interest it would be 45.7 per cent.

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Mr. KELLUM: You take the bank loan out of capital
and revenue out of revenue?

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Mr. KELLUM: Take the bank loan out of capital
and revenue out of revenue and you have 45.7 per cent
earned on capital employed. In 1932 the net revenue
applicable to capital employed was 47.9 per cent and
worked out on the other basis it would be 48.0 per cent.
I submit, therefore, that the basis of our calculations
is not unfair to this company. In 1933 the figure
as given in the brief is 37.4 per cent and on the basis
suggested by Mr. Kellum it is 38.3 per cent. In

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1934, according to the brief it was 47.3 per cent and
in 1935 37.3 per cent. But what I was emphasizing
was the fact that during the five year depression period with the pro-
depression period. There is this to be said also.
It will be found in the brief that in 1931 the

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you cannot take one company and say that it has made a large profit, but that you must consider along with that the company that has not made so much. The fact is, however, that one tariff protection is there, common to all, and it has been made high enough to provide for this sort of profit, and it is the consumer that pays it. I submit that they cannot justify it, The tariff protection they receive on the goods that are manufactured by this company, and show profits of the ~~mi~~ kind which we see here--43.1 per cent in the year 1931 and 37.3 per cent in 1935, on articles that are as much necessities of life to the consumer as these woollen goods are. Take the net profit on sales, and consider the depression years as compared with the pre-depression years. One is under a lower tariff and the other under a higher scale of tariffs. The percentage of net profit to sales is as follows:

1931	19.9 %
1932	8.1 %
1933	13.5 %
1934	8.3 %
1935	17.0 %

This scale is somewhat higher than the scale in the previous five years. In studying all this I have set the figures out in this way throughout the brief, giving a comparison of what they did in the two periods--what they were able to do when other people were unable to make a living. And after all,

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you cannot take one company and say that it has made a large profit, but that you must consider along with that the company that has not made so much. The fact is, however, that one tariff protection is there, common to all, and it has been made high enough to provide for this sort of profit, and it is the sort of answer that says it. I submit that they cannot justify it. The tariff protection they receive on the goods that are manufactured by this company, and show profits of the kind which we see here--48.1 per cent in the year 1931 and 37.8 per cent in 1932, on articles that are as much necessities of life to the consumer as these woolen goods are. Take the net profit on sales, and consider the depression years as compared with the pre-depression years. It is under a lower tariff and the other where a higher scale of tariffs. The percentage of net profit to sales is as follows:

1931	48.1 %
1932	37.8 %
1933	37.8 %
1934	37.8 %
1935	37.8 %

This scale is somewhat higher than the scale in the previous five years. In stating all this I have set the figures out in this way throughout the brief, giving a comparison of what they did in the two periods--that you will see in the figures. It is worth noting that in 1931 and 1932, the

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the purchasing power of the individual had been considerably reduced during the depression years.

Restore that purchasing power and see what return this sort of tariff protection would give to these companies if it were perpetuated. There would be an increased market in Canada through the return of prosperity. But we must consider the opportunities of throttling the return of prosperity afforded by the maintenance of this high scale of returns.

Let us look now at the Paris Wincey Mills Company. The brief sets out the record of net revenue applicable to capital employed in the operations of this company for the depression years.

The figures are as follows:

1931	6.2 %
1932	6.9 %
1933	12.2 %
1934	14.3 %
1935	12.8 %

The figures for the pre-depression years are:

1926	11.2 %
1927	5.9 %
1928	4.6 %
1929	6.6 %
1930	4.3 %

When we take the record of net profit on sales for the depression years we find that they are uniformly higher--sometimes double and usually nearly a third higher than in the pre-depression years.

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the purchasing power of the individual had been con- siderably reduced during the depression years. Restore that purchasing power and see what return this sort of tariff protection would give to these companies if it were guaranteed. There would be an increased market in Canada through the return of prosperity. But we must consider the circumstances of restoring the return of prosperity afforded by the maintenance of this high scale of returns. Let us look now at the tariff since 1913. Company. The tariff sets out the record of net revenue applicable to capital employed in the operations of this company for the depression years.

The figures are as follows:

1931	6.2 %
1932	7.7 %
1933	12.2 %
1934	14.5 %
1935	18.2 %

The figures for the pre-depression years are:

1927	11.2 %
1928	6.2 %
1929	4.2 %
1930	1.2 %
1931	2.2 %

When we take the record of net profit on sales for the depression years we find that they are

extremely low - in fact, they are

less than 1% in some years.

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Then there is the Paton Manufacturing Company. We find that from 1931 to 1936, with the exception of 1935, when it was low, there has been a uniformly good rate of return on capital employed and an average in the depression years pretty close to the average of the pre-depression years with the exception of that one year 1935. I do not know what the reason was for the drop in that year.

Then there is Patons and Baldwins, Limited. This company manufactures worsted yarns only, and I wish to say something in connection with this because it involves a different principle. Their earnings, net revenue from capital employed in operations for the years 1931 to 1936, are as follows:

1931	22.2 %
1932	12.7 %
1933	19.4 %
1934	22.4 %
1935	30.5 %
1936	34.2 %

One wonders what a company could expect in depression times, with rates on bonds away down, and other returns on investments also down, when in the year 1936 it could show 34.2 per cent return on capital employed. What I want to emphasize is this. Let us take the comparison between the years prior to the depression and the depression years. This company apparently started business in 1929 and the figures for the years 1929 and 1930 are considerably

Then there is the Eaton Manufacturing Company.
We find that from 1931 to 1935, with the exception
of 1935, when it was low, there has been a uniformly
good rate of return on capital employed and an average
of the pre-depression years with the exception of that
one year 1935. I do not know what the reason was
for the drop in that year.

Then there is Eaton and Hamilton, Limited. This
company manufactures war-related items only, and I wish
to say something in connection with this because it
involves a different principle. Their earnings
net revenue from capital employed in operations for
the years 1931 to 1935, are as follows:

1931	1935
12.7%	1932
14.4%	1933
22.4%	1934
30.3%	1935

One wonders what a company could expect in de-
pression times, with rates on bonds going down, and
other returns on investments also down, when in the
year 1935 it could show 34.3 per cent return on
capital employed. What I want to emphasize is this.
Let us take the comparison between the years prior to
the depression and the depression years. This com-

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lower, and that may be accounted for by the fact
that they had just started business. But the point
is that this is a company that manufactures raw
material for the weavers in Canada. It manufactures
only worsted yarns; that is their only business. Now
we find that in 1928 these yarns were free from
Great Britain and the company started up under a
tariff that provided for that free entry of yarns
from Great Britain, with a tariff of ten per cent
under the intermediate and twelve and a half per cent
under the general; and we find them with a return
on capital employed for the first year of 14 per cent
and in 1930 the figure was 14.2 per cent. In 1930
they were given a drastic increase in tariff on this
raw material. At the foot of page 217 I have set
it out again so that we can get the comparison.
Instead of the commodity being free from Great Britain
it is subject to ten per cent ad valorem and 10 cents
per pound, while under the intermediate it is 17 1-2
per cent and 15 cents per pound and under the general
20 per cent and 17 1-2 cents per pound. And from
1932 to date the only change made was 2 1-2 cents
per pound taken off under the British preference.
We also set out the tariff affecting other types
of yarn. What I want to emphasize is that the
principle is all wrong, the principle that provides
a high tariff protection for something that con-
stitutes the raw material for others, because it
means that you give these people a high protection

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that they had just started business. But the point
is that this is a company that manufactures raw
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from Great Britain, with a tariff of ten per cent
under the intermediate and twelve and a half per cent
under the general; and we find them with a tariff
on capital employed for the first year of 14 per cent
and in 1890 the figure was 14.2 per cent. In 1890
they were given a drastic increase in tariff on this
raw material. At the foot of page 217 I have set
it out again so that we can see the comparison.
Instead of the commodity being free from Great Britain
it is subject to ten per cent ad valorem and 10 cents
per pound, while under the intermediate it is 17-1-8
per cent and 12 cents per pound and under the general
20 per cent and 17-1-8 cents per pound. And from
1890 to date the only change made was 2-1-2 cents
per pound taken off under the British preference.
We also set out the tariff affecting other types
of yarn. What I want to emphasize is that the
principle is all wrong, the principle that provides
a high tariff protection for something that con-
stitutes the raw material for others, because it
means that you give these people a high protection

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in the first place--and remember that the number of persons they can employ is not so large when compared with the entire economic structure of the country--and it means also increasing the prices of raw material to the weaver who in turn has to have a higher protective tariff to protect himself, and then an increasing in price of the woven material to the secondary manufacturer, who again has to have a higher protection, so that it is a process of pyramiding all along the line. But when we find that it is put on at the start to provide a return such as we find here, I submit that it is excessive.

The COMMISSIONER: I suppose their competition, if any, comes from Great Britain?

Mr. Mc RUER: I should think so, yes. It seems that in getting the tariff protection they did not neglect the intermediate and general items with an increase from 10 per cent in 1928 to 17 1-2 per cent plus 15 cents per pound under the intermediate.

I have dealt with the Dominion Woollens and Worsteds at page 218 and have quoted from the report of Mr. Evans with respect to all these different mills. I do not intend to dwell at all on what I have said there nor will I repeat it. I believe it makes a clear case and shows that this has been a merger that has loaded other companies with high overhead and that there has been poor management, according to Mr. Evans. Whatever may be true of the whole thing, it irons out to this, that for our purposes it cannot be taken as representative

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in the first place--and remember that the number of persons they can employ is not so large when compared with the entire economic structure of the country--

and it means also increasing the prices of raw material to the weaver who in turn has to have a higher protective tariff to protect himself, and then an increasing in price of the woven material to the secondary manufacturer, who again has to have a higher protection, so that it is a process of

spinning all along the line. But when we find that it is put on at the start to provide a return such as we find here, I submit that it is excessive. The Commission: I suppose their commission,

it any, comes from Great Britain? Mr. McMur: I should think so, yes. It seems

that in getting the tariff protection they did not neglect the intermediate and general items with an increase from 10 per cent in 1928 to 14 1-2 per cent plus 15 cents per pound under the intermediate.

I have dealt with the Dominion Woolens and worsteds at page 218 and have quoted from the report of Mr. Evans with respect to all these different mills. I do not intend to dwell at all on what I

have said there nor will I repeat it. I believe it makes a clear case and shows that this has been a merger that has loaded other companies with high overhead and that there has been poor management, according to Mr. Evans. Whatever may be true of the whole thing, it turns out to this, that for

the Commission: I submit that the Commission

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in any sense of a condition on which to establish a sound policy for the future.

At page 223 I have classified the types of goods manufactured by the different reporting companies, and I just want to say a word in reference to Ayers, Limited, and Kenwood Mills, Limited, which will be found at the bottom of page 223. I quote from the brief:

"Exhibits 1064 and 1069 summarize and analyze the record of these two companies for ten year period from 1926 to 1935. The business of Ayers, Limited, consists of manufacturing paper-makers felts of wool, cotton and asbestos and woollen blankets and miscellaneous cloth lines. The business of Kenwood Mills, Limited, consists of paper-makers felts, blankets, bedspreads, and bath-robes."

In regard to Ayers, Limited, from 1931 to 1935, we find that their net revenue from capital employed in operations ran from 4.9 per cent to 11.7 per cent; and from 1926 to 1930, under the lower tariff schedule, it ran from 14.3 per cent to 3.6 per cent.

I do not know whether the reductions in 1928 had anything to do with the lower return in those last two years. There is one circumstance to be noted about this company. It has a substantial business in the manufacture of paper-makers felts, and there

in any sense of a condition on which to establish
a policy for the future.

At page 283 I have classified the types of
goods manufactured by the different reporting
companies, and I just want to say a word in reference
to Yarns, Limited, and Kenwood Mills, Limited, which
will be found at the bottom of page 283. I quote
from the brief:

"Exhibits 1034 and 1035 summarise and
analyse the record of these two companies
for ten year period from 1921 to 1930. The
business of Yarns, Limited, consists of manu-
facturing paper-makers felts of wool, cotton
and asbestos and woolen blankets and mis-
cellaneous cloth lines. The business of
Kenwood Mills, Limited, consists of paper-
makers felts, blankets, bedspreads, and bath-
robes."

In regard to Yarns, Limited, from 1921 to 1930,
we find that their net revenue from original employees
in operations ran from 4.9 per cent to 11.7 per cent;
and from 1925 to 1930, under the lower tariff
schedule, it was from 1.1 per cent to 1.4 per cent.
In 1921 and under the restrictions in 1925 and
anything to do with the lower revenue in those last
two years. There is one circumstance to be noted
about this company. It has a substantial business
in the manufacture of paper-makers felts, and there

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is a portion of that, at any rate, which is export business. I think they have been exporting paper-makers felts to Japan.

5 Mr. KELLOCK: Are you sure of that ?

Mr. McRUER: That is one of the things to which the surtax was applied.

Mr. KELLOCK: But did this company ?

10 Mr. McRUER: Oh, I do not know about this company. They do an export business, but whether this company exports to Japan I do not know. It is a fact however that Canada does export paper-makers felts to Japan. Now we see here the maintenance of a very high average through the depression years of the profit on
15 operations, on sales.

Let us come to Kenwood Mills, Limited. They are interesting in this sense that, as Your Lordship will remember, I emphasized particularly the very high duties that prevailed in respect of blankets
20 and the high duties that have prevailed since 1930 and that still prevail. The capital employed in operations from 1931 to 1935 shows returns of from 16.7 per cent in 1931 to a high of 26.4 per cent in 1935. That is not too bad. During the pre-depres-
25 sion years it showed returns from 16.1 per cent in 1930 up to 24.1 per cent going back to 1926. So that they did not do too badly under the lower tariff schedules between the years 1926 and 1930. And the ratio of net profit in sales to sales for the same
30 periods was as follows:

1935

is a portion of that, at any rate, which is exported
business. I think they have been exporting paper-
makers' waste to Japan.

Mr. KILBICK: Are you sure of that?

Mr. WOODRUM: That is one of the things to which

the export was applied.

Mr. KILBICK: But did this company?

Mr. WOODRUM: Oh, I do not know about this company.

They do an export business, but whether this company
exports to Japan I do not know. It is about how
that Canada does export paper-makers' waste to Japan.

Now we see here the maintenance of a very high average

through the depression years of the profit on

operations, on sales.

Let us come to Kennecott Mill, Limited. They

are interesting in this sense that, as your

will remember, I emphasized particularly the very

high profits that prevailed in respect of blankets

and the high profits that have prevailed since 1930

and that still prevail. The capital employed in

operations from 1911 to 1930 was \$1,125,000.

18.7 per cent in 1931 to a high of 28.4 per cent in

1933. That is not too bad. During the pre-war

seven years it showed returns from 18.1 per cent in

1920 up to 24.1 per cent going back to 1928.

That they did not do too badly under the lower tariff

schedules between the years 1928 and 1930. And the

ratio of net profit to sales for the same

periods was as follows:

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1931 17.2 %

1932 17.0 %

1933 27.1 %

1934 24.8 %

1935 23.7 %

And from 1926 to 1930:

1926 24.8 %

1927 21.3 %

1928 21.4 %

1929 14.7 %

1930 16.3 %

So that without the excessive increase in the tariff that took place in 1930 in respect of these articles, the company seemed to have done fairly well.

Now we come to the knit goods division. I propose to treat this very much in the same way as I treated the silks. I have set it out in detail in my brief, but I wish to say something with respect to the Penman Company, because that is a company that has undergone considerable capital reconstruction --I will call it that, putting it mildly--with the result that there is outstanding in the hands of the public a good deal of common stock that was what I call bonus or promoters' stock. The company was incorporated to take over the business of the Penman Manufacturing Company.

The COMMISSIONER: In 1906 ?

Mr. McRUER: Yes.

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1981	17.2 %
1982	17.0 %
1983	27.1 %
1984	24.8 %
1985	22.7 %

and from 1986 to 1990:

1986	24.3 %
1987	21.3 %
1988	14.7 %
1989	16.3 %

So that without the excessive increase in the tariff that took place in 1990 in respect of these articles, the company seemed to have done fairly well.

Now we come to the knit goods division. I propose to treat this very much in the same way as I treated the silk. I have set it out in detail in my brief, but I wish to say something with respect to the Herman Company, because that is a company that has undergone considerable capital reorganisation -- I will call it that, putting it mildly -- with the result that there is outstanding in the hands of the public a good deal of common stock that was what call bonus or promoters' stock. The company was incorporated to take over the business of the Herman

The Commission: in 1988 ?

...

5 The Penman Manufacturing Company was incorporated
in 1882 to take over the business which had been
operated by John Penman. John Penman had come to
Paris about 1879 and had gone into business there
as a manufacturer of knät goods and the original
capitalization of the company was \$250,000, with
\$204,300 capital stock issued. In 1893 the company
had accumulated undistributed profits amounting to
\$273,762. This is an example of what I emphasized
10 earlier, namely, that the consumer provides capital
all the way through for the industry, and it is a
question how far the consumer can be called upon to
go on providing a return on that capital. There are
different ways of doing it. One is to split the
15 stock ~~and~~ as soon as there is a nice surplus and
then call for a dividend on that stock.

The COMMISSIONER: Is that what happened here ?

Mr. McRUER: Yes.

20 The COMMISSIONER: In addition to that they
paid dividends ?

Mr. McRUER: Yes; we have the dividend record.

In 1893 the company had accumulated profits amounting
to \$273,000 odd. Capital stock was distributed
25 among the shareholders pro rata to this amount.

Subsequent to the issue of this stock dividend the
company purchased the Henderson Mills at Thorold,
the Coaticook Mill, the Ellis property at Port
Dover and the Bates Felt property, and issued in all
30 for the purchase of these properties \$244,000 of

1915

The Penman Manufacturing Company was incorporated

in 1883 to take over the business which had been
operated by John Penman. John Penman had come to
Paris about 1879 and had gone into business there
as a manufacturer of knit goods and the original
capitalization of the company was \$200,000, with
\$104,500 earned stock issued. In 1883 the company
had accumulated undistributed profits amounting to
\$175,000. This is an example of what I emphasized
earlier, namely, that the company provides capital
all the way through for the industry, and it is a
question how far the company can be called upon to
go on providing a return on that capital. There are
different ways of doing it. One is to split the
stock out as soon as there is a nice surplus and
then call for a dividend on that stock.

The question is: Is that what happened here?
Mr. Baydin: Yes.

The question: In addition to that they
paid dividends?

Mr. Baydin: Yes; we have the dividend record.
In 1893 the company had accumulated profits amounting
to \$275,000 odd. Capital stock was distributed
subsequent to the issue of this stock dividend the
company purchased the Henderson Mills at Toronto,
the Coaticook Mill, the Ellis property at Port
Huron and the Bates Mill property, and issued in all
for the purchase of these properties \$244,000 of

capital stock. To that extent therefore, the company was a merger of these independent concerns. The capital stock outstanding at the date of incorporation of Penmans, Limited, in 1906, was as follows:

5	Original capital stock	\$204,300.
	Issued as stock dividends on original investment of \$204,000	274,100.
	Issued for acquisition of properties	<u>244,000.</u>
		\$722,400.

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When we come down to the financial reorganization that took place in 1906 we find that \$574,400 was invested, we will say actually invested in the property. When Penmans, Limited, was incorporated in 1906 it took over the properties of the Penman Manufacturing Company, with the exception of \$25,000 which was invested in the Paris Plough Company. A syndicate was organized and a Mr. D. M. Stewart of the Sovereign Bank seems to have acted on behalf of the company. They acquired the capital stock of the Penman Manufacturing Company at \$50 per share. The amount realized by the shareholders of the outstanding capital of 7,224 shares was \$2,528,400. The result of the business was that for \$204,300 invested in 1882 and \$244,000 issued for properties, a total of \$448,300, the shareholders realized in 1906 \$2,528,400 and drew 39 dividends in the meantime. The complete record of these dividends is not available. The reason that we know 39 dividends were paid

capital stock. To the extent therefore, the company
was a holder of these independent concerns. The
capital stock outstanding at the date of incorporation
of Tannan, Limited, in 1906, was as follows:

Issued as stock dividends on existing investment of	
Issued for acquisition of properties	
	<u>\$24,000.</u>
	\$782,400.

When we come down to the financial reorganization
that took place in 1908 we find that \$782,400 was
invested, we will say actually invested in the pro-
perty. When Tannan, Limited, was incorporated in
1908 it took over the properties of the Tannan
Manufacturing Company, with the exception of \$25,000
which was invested in the Tannan Manufacturing Company. A
syndicate was organized and a Mr. D. J. Stewart of
the Government Bank seems to have acted on behalf of
the company. They acquired the capital stock of
the Tannan Manufacturing Company at \$250 per share.
The amount retained by the shareholders of the out-
standing capital of 7,824 shares was \$1,956,000. The
result of the business was that for 1908, 1909 invested
in 1908 and 1909, \$24,000 issued for properties, a total
of \$48,000, the shareholders realized in 1908
\$1,956,000 and drew 39 dividends in the meantime.
The complete record of these dividends is not avail-
able. The reason that we know 39 dividends were paid

is that the record shows the number of dividends from year to year. They paid, over a period of twelve years, a total of \$575,000 in dividends, in addition to the dividends for the years prior to 1892 concerning which no information is available. That total of \$575,000 is for the years from 1892 to 1904.

Now we come to Penmans Limited, and a consideration of what was done by the syndicate there. I can summarize it in this way. Under the arrangement made, the company provided--that is, the new company--the necessary capital to take over the assets of the Penman Manufacturing Company, and \$2,000,000 in common stock and \$471,600 in preferred stock went to the syndicate. That is after the bonds were issued and the preferred stock was issued, sufficient to provide capital to pay off the shareholders in full at \$350 a share. The members of the syndicate got out of the pot, so to speak, all the common stock and \$471,600 of preferred stock.

When, therefore, we come to deal with the earnings of this company of dividends that have been paid, we must realize that the common stock and \$471,000 of the preferred stock is all promoters' stock, so to speak. There was nothing invested by investors for that stock, and the only thing that gave it value was the earning power provided by tariff protection.

The commission adjourned at 12.30 p.m. to resume at 2.30 p.m.

is that the record shows the number of dividends from year to year. They said, over a period of twelve years, a total of \$275,000 in dividends, in addition to the dividends for the years prior to 1903 consisting of \$275,000 is for the years from 1903 to 1904.

Now we come to Hermann Limited, and a consideration of what was done by the syndicate there. I can summarize it in this way. Under the arrangement

made, the company provided--that is, the new company--the necessary capital to take over the assets of the German Manufacturing Company, and \$2,000,000 in common stock and \$471,000 in preferred stock went to the syndicate. That is after the bonds were issued

and the preferred stock was issued, sufficient to provide capital to pay off the shareholders in full at \$100 a share. The members of the syndicate got out of the pot, so to speak, all the common stock and \$471,000 of preferred stock.

Then, therefore, we come to deal with the earnings of this company of dividends that have been paid, we must realize that the common stock and \$471,000 of the preferred stock is all promoters' stock, so to speak. There was nothing invested by investors for that stock, and the only thing that gave it value was the earning power provided by family protection.

The commission adjourned at 12.30 p.m. to

resume at 2.30 p.m.

AFTERNOON SESSION

-- On resuming at 2.30 p.m.

ARGUMENT BY MR. McRUER, K.C. (Resumed):

5 I was just dealing with the incorporation of
Permans, Limited, and the issue of that portion of the
preferred shares and the common shares that were issued
to the syndicate that brought about the incorporation.
Then, we have certain shares that were issued to acquire
10 the Anchor Knitting Company, and that completes the
changes that have been made in the capital structure
of the company except the splitting of the shares that
took place later on. In 1927 -- this is dealt with
at the top of page 230 -- the company's share capital
15 amounted to 21,506 shares, common shares, of a par
value of \$100 each which were exchanged for 64,518
shares, that is, split three for one.

THE COMMISSIONER: Without any par value.

20 MR. McRUER: Without any par value, yes, my lord.
So that we have them starting off with the common shares
all bonus shares, part of the preferred stock, and then
these common shares ultimately split three for one.
Now, exhibit 1070 shows the financial record of the
company since 1907 and shows that there have been
25 paid in dividends on the preferred stock \$1,869,375.00
and on the common stock \$4,795,838.00.

"The good-will, amounting to \$2,257,953.60 has been
written down to \$1.00, and the company has to the
30 credit of Surplus and Reserve Account, \$2,358,602.12".
Now, that is a pretty spectacular record considering

-- On Tuesday at 2.30 p.m.

THE COMPANY:

I was just dealing with the incorporation of
Tennants, Limited, and the issue of that portion of the
preferred shares and the common shares that were issued
to the syndicate that brought about the incorporation.
Then, we have certain shares that were issued to a party
the Anchor Knitting Company, and that completed the
changes that have been made in the capital structure
of the company except the splitting of the shares that
took place later on. In 1927 -- this is dealt with
at the top of page 230 -- the company's share capital
amounted to 21,500 shares, common shares, of a par
value of \$1.00 each which were exchanged for 65,500
shares, that is, split three for one.

THE COMPANY: Without any per value.

MR. MONTGOMERY: Without any per value, yes, my lord.

So that we have them starting off with the common shares
all bonus shares, part of the preferred stock, and then
these common shares ultimately split three for one.
Now, exhibit 1079 shows the financial record of the
company since 1907 and shows that there have been
paid in dividends on the preferred stock \$1,663,575.00
and on the common stock \$4,735,338.00.

"The good-will, amounting to \$2,837,958.60 has been
written down to \$1.00, and the company has to the
credit of surplus and reserve account, \$2,838,808.12.
Now, that is a pretty spectacular record considering

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that 44% of the preferred stock on which these earnings were earned, and 100% of the common stock, was issued as profit to the syndicate organizing the company. Now, I had a calculation made to show what had been paid in dividends on these securities that had been issued as a bonus, and we find that there is \$5,694,608--

THE COMMISSIONER: What did you say about that?

MR. McRUER: \$5,694,608--

THE COMMISSIONER: What does it represent?

MR. McRUER: It represents dividends that have been paid on the securities that were issued as bonus to the syndicate.

MR. KELLOCK: It is not correct to say bonus. They were issued for goodwill. The Company got an asset.

MR. McRUER: My friend can call it goodwill; I call it bonus.

MR. KELLOCK: It is misleading to call it bonus.

MR. McRUER: I don't think so.

THE COMMISSIONER: In here you call it good will. You say "securities represented by goodwill and inflation"--

MR. KELLOCK: He goes on to say -- "which may be regarded as bonus securities".

THE COMMISSIONER: Well, that is an argument.

MR. McRUER: "The earnings accruing to these securities as shown by the Reserve and Surplus Account, amount to \$4,510,696.00!"

Now, there again my argument that I presented earlier comes into play, that is, can this company, after having paid out \$5,694,608 on this stock that I call bonus stock, stock that was issued for good will my friend

that 4 1/2 of the preferred stock on which these earnings
were earned, and that at the same time the company
was paying to the stockholders the company.
Now, I had a calculation made to show what had been
paid in dividends on these bonds since that time and
found that the amount was \$5,000,000, and that the amount is \$5,000,000.
THE COMMISSIONER: What did you say about that?

MR. McRURRY: \$5,000,000--

THE COMMISSIONER: What does it represent?

MR. McRURRY: It represents dividends that have been

paid on the bonds since that time.

the syndicate.

MR. KIMLOCK: It is not correct to say bonds. They

were issued for good will. The company got an asset.

MR. McRURRY: If that was all it was worth, I will

it bonds.

MR. KIMLOCK: It is misleading to call it bonds.

MR. McRURRY: I don't think so.

THE COMMISSIONER: In here you call it good will.

MR. KIMLOCK: He goes on to say -- "which may be

regarded as bonds securities."

THE COMMISSIONER: Well, that is an argument.

MR. McRURRY: "The earnings accruing to these securities

to \$4,250,000.00.

THE COMMISSIONER: Now, what is the amount of the

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calls it, stock for which no money was paid, and this company has over and above that a reserve and surplus account in respect to that stock of \$4,510,696.00, can they come along to-day and say "we want tariff protection to give us a return on that capital that we have in there", \$4,510,696.00 built up out of the consumers' dollars and cents under tariff protection. It surely is unsound to attempt to base a tariff protection on capital employed in the industry when we find that the consumer has contributed \$5,000,000 in dividends on stock for which no money was paid, and that in respect to that stock that they give it an asset value of \$4,510,000.

"For no capital investment in the company at all, the promoters of the syndicate that organized the company in 1906, have realized \$10,205,304.00."

Now, it is just precisely a repetition of the affairs of the Dominion Textile Company, and the management of the company has, to a certain degree, been under the same management as the Dominion Textile Company, the same president; I don't know how many of the directors are the same. I have never looked that up.

The net profit to sales -- now, we come down to the depression years -- we find they run from 5% to 8%, and in the pre-depression years from 5.9% to 9%. Now, we come to the net revenue to capital employed in operations in the company for the ten year period, and I say:

"It cannot be taken as any guide in view of the fact that the whole of the capital, with the exception of the portion of the preferred stock and

calls it, stock for which no money was paid, and this company has over and above that a reserve and surplus account in respect to that stock of \$4,310,000.00, and they come along to-day and say "we want tariff protection to give us a return on that capital that we have in there", \$4,310,000.00 built up out of the company's dollars and cents under tariff protection. It is unreasonable to attempt to have a tariff protection on capital employed in the industry when we find that the government has contributed \$5,000,000 in dividends on stock for which no money was paid, and that in respect to that stock that they give it an asset value of \$4,310,000.

"For no capital investment in the company at all, the promoters of the syndicate that organized the company in 1901, have received \$4,310,000.00."

Now, it is just precisely a repetition of the attitude of the Dominion Textile Company, and the management of the company has, to a certain degree, been under the same management as the Dominion Textile Company, the same president; I don't know how many of the directors are the same. I have never looked that up.

The net profit to sales -- now, we are down to the depression years -- we find they ran from 34 to 36, in the pre-depression years from 2.34 to 3.6. Now, come to the net revenue to capital employed in operation in the company for the ten year period, and I say: "It cannot be taken as any guide in view of the fact that the whole of the capital, with the exception of the portion of the preferred stock on

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"the bonds, is accumulated profit".

That is, profit that has been earned on shares for which nothing was paid. The net earnings on capital employed in operations, even on that basis, have run from 3.6% to 6% in the depression years. That is, they have got a return on this capital that has been created out of the consumers' money, and not invested by the investors, of 3.6% to 6%. That is, if anyone would give to me to-day capital that I did not have to work for of a few thousand dollars and then provide me with a return on it I would think they were being very kind and generous to me.

MR. KELLOCK: You are not suggesting we did not have to work for the accumulated profit.

MR. McRUER: I certainly suggest you didn't. You paid the other men that worked for it, probably didn't pay them enough, but the people that worked for it we assume have been paid. It is an accumulated profit to people that did nothing.

MR. KELLOCK: Except risk their money.

MR. McRUER: They didn't risk their money. They didn't risk a cent. They took bonus stock. My friend is getting in deeper water all the time.

MR. KELLOCK: You are the man that is talking about the water.

MR. McRUER: I know there is plenty of water around it. There is nearly a flood.

" In considering the operations of this Company from the point of view of the consumer, it must be borne in mind that the consumer has contributed to

"the bonds, is accumulated profit".

That is, profit that has been earned on shares for which nothing was paid. The net earnings on capital employed in operations, even on that basis, have run from 3.66 to 66 in the depression years. That is, they have got a return on this capital that has been created out of the consumers' money, and not invested by the investors, of 3.66 to 66. That is, if anyone would give to me to-day capital that I did not have to work for of a few thousand dollars and then provide me with a return on it I would think they were being very kind and generous to me.

MR. KELLICK: You are not suggesting we did not have to work for the accumulated profit.

MR. McNEIL: I certainly suggest you didn't. You paid the other men that worked for it, probably didn't pay them enough, but the people that worked for it we assume have been paid. It is an accumulated profit to people that did nothing.

MR. McNEIL: They didn't risk the money. They did risk a cent. They took bonds stock. My friend is getting in deeper water all the time.

MR. KELLICK: You are the man that is talking about the water.

MR. McNEIL: I know there is plenty of water around it. There is nearly a flood.

"In considering the operations of this Company from the point of view of the consumer, it must be borne in mind that the consumer has contributed to

"the earnings of the Company \$10,205,304.00. Those who invested nothing in the Company have derived the benefit of the consumers' contribution, this amount being \$3,000,000.00 more than the total capital employed in the manufacturing operations of the Company."

That is, they have invested no money and the consumer has provided them with \$3,000,000.00 more than the total capital employed in the manufacturing operations.

"The consumers, in effect, have purchased the entire plant, and presented it to the owners for nothing, and in addition have provided them with \$3,000,000.00 net profit, and \$1,904,949.14 for depreciation".

Now, I made a calculation in this from the consumers' point of view. We might consider the matter by ascertaining the position that the company would have been in had it paid no dividends on the bonus preferred and common stock. Supposing they had just taken and done this, paid a return on capital actually invested and paid the return that the people contracted for. We find how the shares went up by 1905 in the old company,-- they had risen to \$350 a share, but even taking it on that basis, allowing the profit on that, if they had paid a return on the securities that were issued by the company for assets, but no return on the securities that were issued for good will, or as a bonus, and I submit that securities issued for good will in a protected company cannot be regarded as securities on which they are entitled to a return because it is the protective tariff that creates the

LAW

"the earnings of the company \$10,305,804.00. Those who invested nothing in the company have derived the benefit of the company's contribution, this amount being \$3,000,000.00 more than the total capital employed in the manufacturing operations of the company."

That is, they have invested no money and the company has provided them with \$3,000,000.00 more than the total capital employed in the manufacturing operations. "The company, in effect, have purchased the entire plant, and presented it to the owners for nothing, and in addition have provided them with \$3,000,000.00 net profit, and \$1,904,943.14 for depreciation."

Now, I make a calculation in this from the company's point of view. We might consider the matter by ascertaining the position that the company would have been in had it paid no dividends on the preferred and common stock. Supposing they had just taken and done this, paid a return on capital actually invested and paid the return that the people's company for. We find how the shares went up by 1905 in the old company. -- they had risen to \$850 a share, but even taking it on that basis, allowing the profit on that, if they had paid a return on the securities that were issued by the company for assets, but no return on the securities that were issued for good will, or as a bonus, and I submit that securities issued for good will in a protected company cannot be regarded as securities on which they are entitled to a return because it is the protective tariff that creates the

good will, and then having created the good will for them they cannot say "now, you must give us a dividend on the good will"; that is rather adding insult to injury. Now, "Net current assets as per books of the Company, after deducting trade & operating liabilities, \$2,412,824.98. Inventory reserve, \$150,000. Outside investments \$76,100". Then, we make a calculation, "funds which would be available had dividends on bonus preferred and common stock not been paid", and again calculating simple interest on that at 3%. That is, if, instead of paying a dividend out on this bonus stock, they had retained the money and invested it at 3% they would have had a fund of \$7,583,890. Now, they have got value of lands, buildings and machinery, less depreciation, of \$14,620,945.72. Now, the capital liabilities are deducted --

THE COMMISSIONER: Where do you get your values there in this case?

MR. McRUER: Right from the books, my lord, for the good will; these were all taken from their books.

THE COMMISSIONER: I am referring to the item for value of land.

MR. McRUER: Yes, that is the depreciated value of the lands and buildings as carried in their books. Whether they have a greater value on an appraisal or not I don't know. Then, we deduct their capital liabilities, bonds outstanding, and that portion of the preferred stock that was issued for assets, and not for good will, and the common stock issued to purchase the Anchor Knitting Company, \$40,600, making total

now will, and they are saying that the good will is
 then they cannot say "now, you must give us a dividend
 as the good will is in the hands of the company."
 injury. Now, what amount assets as per books of the
 company, a few hundred thousand dollars, I think.
 28,412,824.38. Inventory reserve, 2130,000. Outside
 investments \$76,100. Then, we make a calculation,
 "lands which would be available had dividends on bonds
 preferred and common stock not been paid", and again
 value of lands, buildings and machinery, 1,200,000.
 17, instead of paying a dividend out on this bond
 stock, they had retained the money and invested it in
 28 they would have had a fund of \$7,335,800. Now, the
 have got value of lands, buildings and machinery, 1,200,000.
 depreciation, of \$14,620,945.78. Now, the capital
 liabilities are deducted --
 THE COMMISSIONER: Where do you get your value
 there in this case?
 MR. McNEIL: Right from the books, my lord, for
 the good will; these were all taken from the books.
 THE COMMISSIONER: I am referring to the item for
 value of land.
 MR. McNEIL: Yes, that is the depreciated value of
 the lands and buildings as carried in the books.
 Whether they have a greater value on an appraisal or
 not I don't know. Then, we deduct their capital
 liabilities, bonds outstanding, and that portion of the
 preferred stock that was issued for assets, and not
 for good will, and the common stock issued to purchase
 the lands and buildings, 1,200,000, and the result

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outstanding liabilities of \$2,420,500. Then, we have a balance of \$12,200,445.72. That is, if they had pursued that method of financing, that is, pay everybody everything for money they have invested, but pay nobody anything for a return on bonus stock, or watered stock, they would have had on hand a fund of \$12,200,445.72 which would have enabled them to pay off their buildings and land at the depreciated value of \$4,398,130.75 and left about \$7,822,314.98 for them to invest in outside securities and get a return on it. Now, first from the consumers' point of view that is what the consumer has done under the protective tariff in the past. They have done that. They have actually provided them with a fund that, had it been handled in that way instead of the exploitation that took place, shows the position that the company would have been in. On the other hand, could they come now before any Government with that position, that balance sheet, and justify the tariff protection they have at the present time. They would not be listened to for a moment with a balance sheet of that kind. On the other hand, could they even justify for a moment the wages they have paid to their employees with a balance sheet of that kind? Consider how the employees have fared compared with those who did not put a cent into the business; all they did was promote a merger. This is the company that penalized the employees for making errors in their stockings, and fined them and made them do two for one.

THE COMMISSIONER: Do I understand you to say that those who promoted the merger had this stock

outstanding liabilities of \$8,480,500. Then, we have a balance of \$18,200,448.78. That is, if they had pursued that method of financing, that is, pay everything for money they have invested, but pay nothing for a return on bonds stock, or watered stock, they would have had on hand a fund of \$18,200,448.78 which would have enabled them to pay off their obligations and land at the depreciated value of \$4,898,180.78. I left about \$7,882,314.98 for them to invest in outside securities and get a return on it. Now, first from the consumers' point of view that is what the business has done under the protective tariff in the past. They have done that. They have actually provided with a fund that had it been handled in the way that it was handled, that is, they would have been in the position that the company would have been in. On the other hand, could they come now before any Government with that position, that balance sheet, and justify the tariff protection they have at the present time? They would not be listened to for a moment with a balance sheet of that kind. On the other hand, could they justify for a moment the wages they have paid to their employees with a balance sheet of that kind? Could they how the employees have fared compared with those who did not put a cent into the business; all they did was to employ a manager. This is the company that has been the employees for making errors in their stocking, and fined them and made them do two for one.

allotted to them under the name of good will?

MR. McRUER: Yes, they promoted the merger and stock was allotted to them and charged up on the books as good will.

THE COMMISSIONER: Good will means something different than that. It is something I get for going out of business and letting you come in and take my place.

MR. McRUER: Well, as a rule that is true. You can sell out and you have a good name and trade and position and probably an advertising campaign and all that sort of thing behind you.

THE COMMISSIONER: Yes, and then I retire and hand everything over to you, and I abstain from competing with you.

MR. McRUER: But they didn't even promote a merger here. All they did was turn the Penman Manufacturing Company over to Penmans, Limited.

THE COMMISSIONER: And the old company died.

MR. McRUER: The old company died. They just applied for a new charter and went on doing the same business.

MR. KELLOCK: A new company.

MR. McRUER: A new company, in which these people become interested in the common stock and in that way get the ir \$2,400,000.

THE COMMISSIONER: I am just considering whether there is anything there at all that you can call good will in a transaction of that sort.

MR. McRUER: Ordinarily I should say no, and with a tariff protected industry when the tariff must necessarily

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alotted to them under the name of good will?

MR. McWILLIAMS: Yes, they promoted the merger and stock

was allotted to them and charged up on the books as

good will.

then that. It is something I get for going out of

business and letting you come in and take my place.

MR. McWILLIAMS: Well, as a rule that is true. You see

sell out and you have a good name and trade and position

and probably an advertising campaign and all that sort

of thing behind you.

THE COMMISSIONER: Yes, and then I write and hand

everything over to you, and I obtain from connecting

with you.

MR. McWILLIAMS: Yes, and then I write and hand

here. All they did was turn the former business over

company over to Penman, Limited.

THE COMMISSIONER: And the old company died.

MR. McWILLIAMS: The old company died. They just

applied for a new charter and went on doing the same

business.

MR. McWILLIAMS: A new company.

MR. McWILLIAMS: A new company, in which these people

became interested in the common stock and in that way

got their \$2,400,000.

THE COMMISSIONER: I am just wondering whether there

there is anything there at all that you can call good

will in a transaction of that sort.

MR. McWILLIAMS: Ordinarily I should say no, and with

very little or nothing at all in a transaction of that sort.

provide any good will that they have got, according to themselves, I should say twice no. That is about the way I would put it. It is a glaring example of what can be done under a tariff protected industry, and they must have had more than abundant tariff protection before they were raised in 1930 because most of these earnings, or at least more occurred before 1930. This stock that was issued got its value by earnings that were prior to 1930. I deal with this later on when I come to another question and it is a serious problem with these tariff protected industries. We start off, in the first place, with this stock issued for the so-called good will and the promoters pay nothing for it, do not put a cent into the company. Then they go on and get it built up and the consumer gives them a return on it that justifies them in splitting it three for one, and then it is spread out on the public again, and then they come along and say "the bigger the spread the more props we have got to have, and the more tariff protection we need to pay a dividend on the split shares," three to one, when the shares had no substance in the first place. One thing that I think your lordship will have to consider is what control there has to be taken to prevent this sort of thing. If this had been prevented in 1906, if there had been someone to say "no, you don't, you cannot capitalize a tariff protected company in that way and turn the shares over and make \$2,000,000, or draw out \$2,000,000 worth of stock, and then expect the consumers to pay you dividends on that", it would have

with this later on when I come to another question
value by earnings that were prior to 1930. I feel
before 1930. This stock that was issued got its
most of those earnings, or at least more occurred
protection before they were raised in 1930 because
and they must have had more than abundant tariff
what can be done under a tariff protected industry,
the way I would put it. It is a glaring example of
to themselves. I should say twice no. That is about
provide any good will that they have got, except that

and as far as we are concerned, in the first place, with this stock issued for the so-called good will and the promoters pay nothing for it, do not put a cent into the company. Then they go on and get it built up and the consumer gives them a return on it that justifies them in splitting it three for one, and then it is spread out on the public again, and then they come along and say "the bigger the spread the more profits we have got to have, and the more tariff protection we need pay a dividend on the split shares," three to one, and the shares had no substance in the first place. One thing that I think your foreigner will have to remember is what control there has to be taken to prevent this sort of thing. If this had been prevented in 1906, if there had been someone to say "no, you don't, you

been a better thing. No wonder there are a good many knitting companies springing up, and we will find as time goes on, with returning prosperity, the same sort of thing will go on among the knitting companies. We will find the Monarch Knitting Company, and Standfields and the Mercury Mills, and so on, will all be picked up by some promoters from Montreal, or possibly from Toronto -- I don't think they are above doing that in Toronto. They will be merged and bonus stock issued and then the public in 1945 will be asked to increase the tariff and give them more support.

Now, I am not going into detail with the Monarch Knitting Company. We had that all pretty well at Dunnville, and we remember the spectacular increase they had in the dull times between 1905 and 1910, when the original incorporators put in \$7500 and sold out about 1912 for \$750,000.

THE COMMISSIONER: 1909.

MR. McRUER: 1909?

THE COMMISSIONER: That is my recollection. Yes, \$7500 had grown to \$750,000 by 1909. Then, there was an incorporation which remained sort of a closed corporation, consisting of the shareholders, the original men and their wives. Then, I think a little later about 1912 --

MR. McRUER: It was 1912 that they actually sold out to A.E. Ames and Company for \$750,000.

THE COMMISSIONER: I know, but before that in 1909, if you will look it up; I am just talking from memory. In 1909 -- they re-cast their organization in 1909.

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knitting companies springing up, and we will find as
time goes on, with returning prosperity, the same
sort of thing will go on among the knitting companies.
We will find the Montreal Knitting Company, and
Standfield and the Mersey Mills, and so on, will all
be picked up by some promoters from Montreal, or
possibly from Toronto -- I don't think they are above
doing that in Toronto. They will be merged and bought
up, and later the same will be done in Montreal.
to increase the tariff and give them more support.
Now, I am not going into detail with the Montreal
Knitting Company. We had that all pretty well at
Barnville, and we remember the spectacular increase
they had in the dull times between 1905 and 1910,
when the original incorporators put in \$7500 and sold
out about 1912 for \$750,000.
THE COMMISSIONER: 1909.
MR. AGNEW: 1909?
THE COMMISSIONER: THE FIRST YEAR, 1909.
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an incorporation which remained sort of a closed
corporation, consisting of the shareholders, the original
men and their wives. Then, I think a little later
-- about 1912 --
MR. AGNEW: It was 1912 that they actually sold out
to A.E. Ames and Company for \$750,000.
THE COMMISSIONER: I know, but before that in 1909,
it was still 1909 -- they re-sat their organization in 1909.

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MR. McRUER: I think your lordship is out on the date. I have quoted from the evidence here, at page 235 of my brief.

"Q. So that three of you got in cash in 1912

\$750,000.00 for the original investment of \$7,500.00?"

THE COMMISSIONER: They got it out then, but they valued their investment at \$750,000 long before that.

MR. McRUER: That may be.

THE COMMISSIONER: "The partnership was formed in 1903 when the three partners contributed to capital \$7500.00. Monarch Knitting Company Limited (incorporated in 1908) consisted of 1500 preferred shares and 1000 common shares of \$100.00 par value each."

That is the first incorporation and we were told then that their assets were worth then \$750,000.

MR. McRUER: Well, they may have been then, but they got their cash out in 1912 and I think reinvested in the new company at that time. Now, certain representative companies are dealt with. I just summarize these at page 236, and I am going on now to deal with the subject of hosiery which, of course, is under a different tariff item, and, of course, there are many different kinds of hosiery.

THE COMMISSIONER: What page are you on?

MR. McRUER: Page 237. There is full fashioned hosiery, which is ladies silk hosiery, and cotton, woollen, many different kinds.

The Canadian Silk Products Corporation is a company engaged in the manufacture of full fashioned hosiery, and has had a very spectacular experience. However, this

1923

MR. McNEIL: I think your lordship is out on the date. I have quoted from the evidence here, at page 235 of my brief.

"9. So that three of you got in cash in 1912 \$750,000.00 for the original investment of \$7,500,000.00. The COMMISSIONER: They got it out then, but they valued their investment at \$750,000 long before that. MR. McNEIL: That may be.

THE COMMISSIONER: "The partnership was formed in 1903 when the three partners contributed to capital \$750,000.00. The partnership consisted of 1000 preferred shares and 1000 common shares of \$100.00 per value each." That is the first incorporation and we were told then that there was no more after that.

MR. McNEIL: Well, they may have been then, but they got their cash out in 1912 and I think reinvested in the new company at that time. Now, certain representative companies are dealt with. I just summarize these at page 236, and I am going on now to deal with the subject of hostility which, of course, is under a different title, item, and, of course, there are many different kinds of hostility.

THE COMMISSIONER: What page are you on? MR. McNEIL: Page 237. There is still mentioned hostility, which is under the subject, and hostility, and different kinds. The question will be asked: Is there a company which is the subject of all these hostilities, and has not a very special interest in it?

this should be said in respect to the Canadian Silk Products that I think it is 25% of their business is export business; that is right, is it, Mr. Howson?

MR. HOWSON: Yes.

MR. McHURR: So that they had a substantial export business, and in regard to them what I say about these other companies that had no export business cannot be taken as true, because if a company does an export business it cannot be said that the tariff protection is entirely responsible for the profit the company has earned. It is the consumers of some other country who pay on the export business, and we must bear that in mind.

This company on an investment of \$48,375 made in 1924 now has given dividends amounting to \$926,032.50, and has \$1,267,068.73 in undistributed surplus and reserve, and it has written off \$150,000 loss on its outside investments. It seemed to be more unfortunate on its outside investments than it did on its inside investments.

The net profit on sales for the depression years runs from 13.7% to 20.7%, and in the pre-depression years from 14.8% to 24.3% so we see that these profits have been maintained. Now, when we come down to the percentage of net revenue to capital employed in the operations it would almost overcome one altogether. Over the depression years, in 1931 it was 37.4%, 1932 40.3%, 1933 32.6%, 1934 23.3%, 1935 19.5%, and in the pre-depression years it ran from a low in 1930 of

this should be said in respect to the Canadian Bill
Products that I think it is 25% of their business is
export business; that is right, is it, Mr. Howson?

MR. HOWSON: Yes.

MR. McMURRAY: So that they had a substantial export

business, and in respect to that I say about 25%

other companies that had no export business cannot
be taken as true, because if a company does an export
business it cannot be said that the tariff protection
is not paid for by the tariff on exports.

has earned. It is the consumers of some other country
who pay on the export business, and we must bear that
in mind.

This company on an investment of \$46,375 made

in 1924 now has given dividends amounting to \$226,032.

and has \$1,161,000 in investments and has \$1,161,000 in investments

and it has written off \$150,000 loss on its outside
investments. It seemed to be more unfortunate on its
outside investments than it did on its inside invest-
ments.

The net profit on sales for the depression years

runs from 18.7% to 20.7%, and in the pre-depression

years from 14.8% to 24.3% so we see that these profits

have been maintained, and, when we come down to the

percentage of net revenue to capital employed in the

operations it would almost overcome one another.

Over the depression years, in 1921 it was 37.4%, 1922

30.1%, 1923 28.2%, 1924 25.4%, 1925 22.1%, and in 1926

pre-depression years it was 22.1% and in 1927 it

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39.8% to a high of 88.8% in 1928. So the inside investments were alright.

Now, the other companies appear on pages 239, 240, and 241. There are none of the others that have the spectacular record of Canadian Silk Products. Julius Kayser & Company show pretty handsome profits, the earnings on capital employed in operations running in the depression years from a low of 8.9% to a high of 31.5% in the year ended March 31st, I take it, 1936. So their current history is fairly satisfactory. They had an earning of 31.5%.

My friend, Mr. Kellock, in his brief has mentioned in respect to some of these companies that we deal with -- and they are set out in his brief -- that in making the calculations of earnings on capital employed in the industry that we overlooked in respect to some of them that there were dividends that were cumulative on the preferred stock -- I think the Monarch Knitting Company is one he mentions -- dividends that were cumulative on the preferred stock which had not been paid. That is, the dividend was passed in the past and it was cumulative and it was a debt still owing in the future to the preferred stock shareholders. That is true, as a matter of fact, but it does not affect the way we have set it up here, that is, the return on the capital employed in the industry. It merely affects the return on the common stock, and in Mr. Howson's statements the correction Mr. Kellock points out is true in respect to that item, but in the

32.8% to a high of 38.8% in 1928. So the inside

figures were right.

Now, the other companies appear on pages 243, 240,

and 241. There are none of the others that have

the spectacular record of Canadian Milk Products.

Julius Meyer & Company show pretty handsome profits

the earnings on capital employed in operations running

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in the industry that we overlooked in respect to some

of them that there were dividends that were omitted

on the preferred stock -- I think the Montreal Trust

Company is one he mentions -- dividends that were

cumulative on the preferred stock which had not

paid. That is, the dividend was passed in the past

and it was cumulative and it was a debt still owing

in the future to the preferred stock shareholders.

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affect the way we have set it up here, that is, the

return on the capital employed in the industry. It

merely affects the return on the common stock, and

Mr. Howson's statement the correction Mr. Kellock

states that it is an error in the brief, but it is

5 way I have dealt with it in my brief I think I am correct in saying that it does not make any difference because I have eliminated that whole question by getting down to capital employed in the industry which was the only way I could see of making it uniform and correct.

10 Now, the representative hosiery companies are summarized briefly in the next following pages and I won't need to go into the details of that. I have just this to say in respect to hosiery. Your lordship will recollect the very high specific duty that there is on hosiery; under British preference the specific is 75 cents a dozen pairs. Now, on the other items, the intermediate and general, as I recollect it it is \$1.50, isn't it, Mr. Berry?

15 MR. BERRY: \$1.25, isn't it?

MR. McRUER: \$1.25 or \$1.50; at any rate, I say they are both high. We have got them on record.

20 Now, we come to the carpet division. The carpet business of Canada is confined really to four carpet companies, the Toronto Carpet Manufacturing Company, Limited, the Harding Carpets Limited, Brinton-Peterboro Carpet Company Limited and the Guelph Carpet & Worsted Spinning Mills.

25 THE COMMISSIONER: What about Cobourg Matting & Carpet Company?

30 MR. McRUER: I have mentioned here Cobourg Matting & Carpet Company, but that really doesn't come into the picture as a carpet company because their chief business is matting, and stuff of that sort. They are

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correct in saying that it does not make any difference
because I have eliminated that whole question by getting
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MR. BERRY: \$1.30, isn't it?
MR. MORRIS: \$1.25 or \$1.30; at any rate, I say
they are both right. We have got them on record.
Now, we come to the carpet division. The carpet
business of Canada is confined really to four carpet
companies, the Toronto Carpet Manufacturing Company,
limited, the Harding Carpets limited, and the Ontario
Carpet Company limited and the Guelph Carpet & Warehouse
Company, limited.

THE COMMISSIONER: What about Cobourg Matting &
Carpet Company?
MR. MORRIS: I have mentioned here Cobourg Matting
& Carpet Company, but that really doesn't come into
the picture as a carpet company because it is a
business is matting, and stuff of that sort. They

not, in a sense, competitors with these other companies in the type of goods they make. The Guelph Carpet & Worsted Spinning Mills is also in the business of spinning woollen and worsted yarns, and when we look at their records, as I deal with them, we have to bear that in mind, that they are in a hybrid business of that sort.

Now, to deal with the Toronto Carpet Manufacturing Company which is at page 244. I think the records of these carpet companies are important in view of the emphasis I place on the very high duties, especially specific duties, on carpets at the present time, and in view of what I shall say hereafter in respect to a price arrangement that exists among these carpet companies. The Toronto Carpet Manufacturing Company from 1931 to 1935 showed earnings on capital/employed in operations varying from 4.3% to 8.6%. Now, just having in mind, too, the manner in which this capital is built up out of earnings from year to year that is a pretty handsome return for the depression period. In the pre-depression period before the higher tariffs came in they did alright, too. The lowest was 18.6% in 1930 and the highest 26.8% in 1927.

Now, in the carpet industry there is an example, too, of what high tariffs can do even to injure industry itself. The record of these earnings on capital employed in the industry is certainly an inducement for somebody else to say "we are going to get in this business, too; this is too good to leave to one company".

THE COMMISSIONER: It is good enough to leave to

Not, in a sense, competitors with these other companies in the type of goods they make. The Guelph Carpet & Worsted Spinning Mills is also in the business of spinning woolen and worsted yarns, and when we look at their records, as I deal with them, we have to bear that in mind, that they are in a hybrid business of that sort.

Now, to deal with the Toronto Carpet Manufacturing Company which is at page 244. I turn to the records of these carpet companies are important in view of the emphasis I place on the very high duties, especially specific duties, on carpets at the present time, and in view of what I shall say hereafter in respect to this movement that will be made by the Government.

from 1921 to 1925 showed earnings on a full-time basis in operations varying from 4.3% to 8.5%. Now, just having in mind, too, the manner in which this capital is built up out of earnings from year to year that is a pretty handsome return for the depression period. In the pre-depression period before the higher tariffs came in they did alright, too. The lowest was 15.6% in 1920 and the highest 20.8% in 1927.

Now, in the carpet industry there is an example, too, of what high tariffs can do even to injure industry itself. The record of these earnings on capital employed in the industry is certainly an indictment (for example) that in 1925 the earnings were 15.6% and in 1927 they were 20.8%.

Ontario. I notice they are all there.

MR. McRUR: Yes, my lord, they are all in Ontario, and what happened was that Mr. Harding, who was connected with the Toronto Carpet Company, started out in the carpet business himself and organized a company at Brantford, started a carpet company up there. Now, that was started in 1928. Well, where you have a country with a small population, like Canada, and another company comes on the scene and hard times come it tends to reduce the earning power of the competitive companies, and then they have to ask for some more tariff, and on we go. It is something like chasing yourself around a circle. The momentum -- it is like a squirrel in a cage. It keeps him on the go. Now, the earnings of the Harding Carpet Company, though, just show what can be done. They started out in 1928, right in the face of the depression, and they come along, pull through the depression and are now a dividend paying concern. That looks as though they take some advantage, at any rate, of the tariff protection they have got, and the price arrangements that exists among them, concerning which I have something to say later.

Then, the Brinton-Peterboro Company is dealt with. I am not going to stop at thread. The thread people seem to be doing alright, too, on their return on revenue from operations. It runs from 7.8% in 1931 to 14.6% in 1933.

Now, I have referred on page 260 to two clauses of the --

Ontario. I notice they are all there.

MR. MORTIMER: Yes, my lord, they are all in Ontario.

and what happened was that Mr. Harding, who was

connected with the Toronto Carpet Company, started

out in the carpet business himself and organized a

company at Hamilton, started a carpet company up

there. Now, that was started in 1928.

You have a country with a small population, like

that, and you have a small population, like

that, and you have a small population, like

of the competitive companies, and then they have to

ask for some more tariff, and on we go. It is some-

thing like chasing yourself around a circle.

The momentum -- it is like a spiral in a case, it

keeps on going, and it keeps on going, and it

keeps on going, and it keeps on going, and it

They started out in 1928, right in the face of the

depression, and they come along, pull through the

depression and are now a dividend paying concern.

That looks as though they take some advantage, a

rate, of the tariff protection they have got, and the

price of the tariff protection they have got, and the

price of the tariff protection they have got, and the

price of the tariff protection they have got, and the

I am not going to stop at this. The third people

seem to be doing alright, too, on their return on

travelling from overseas. It was 1935.

1931 to 1935 in 1935.

Now, I was talking on page 260 to two classes

of the --

THE COMMISSIONER: What page?

MR. McRUER: 246, rather, to two clauses in the treaty between Canada and the United Kingdom. I have just put them in here to indicate the basis that is set out in the treaty, at any rate.

THE COMMISSIONER: There is a clerical mistake in your first article, article 10. That should be "reasonably assured".

MR. McRUER: Oh, yes, "industries which are reasonably assured of sound opportunities for success". I quote article 10 as it is as a basis of a principle, that it is both a legislative principle that has been laid down, or a principle existing between Canada and the United Kingdom, at any rate, underlying the basis on which tariff protection is to be fixed. That is, that you cannot go on protecting industries on every kind of capital structure on which they may be erected.

THE COMMISSIONER: Must not that mean classes of industries? How else could you work it?

MR. McRUER: Yes, it probably is.

THE COMMISSIONER: I don't see how else you could work it. One cotton factory may be prosperous and another not, but you cannot protect one without protecting the other, though. That must mean a class of industry. Have you in mind what it might mean?

MR. McRUER: I had thought it meant you could not take as a basis industries that were not reasonably assured of sound opportunities for success.

5 THE COMMISSIONER: Yes, that is what the article says, but I say have you in mind any particular industry to which that might apply? For instance, I would suppose you would say it applies to our cotton industry.

MR. McRUER: Yes, I think they are reasonably assured of sound opportunities.

THE COMMISSIONER: Does it apply to our artificial silk industry? Does it apply to our woollen industry?

10 MR. McRUER: Well, I rather thought that the basis was a little deeper than that, and that is you cannot take as a basis in the industry those who were participating in it who had not reasonable opportunities for success. For instance --

15 THE COMMISSIONER: You mean to say that if you take, for instance, your cotton industry and find that nine-tenths of the cotton factories have no chance of success that you discard the whole industry; we won't protect cotton. That is the way it seems to me it has to be worked out to mean anything, because 20 as soon as you have turned against cotton then any of the industries can benefit.

MR. McRUER: But the quantum of the tariff is the important thing.

25 THE COMMISSIONER: Mind you, the word "protection" is put right in there, "protection". Now, that means it is not a tariff for revenue, it is a tariff that will protect, that is, that will ensure one industry a certain percentage of the home market, and the higher 30 the tariff is the greater that percentage becomes. Now, when you say that shall not be extended except to

THE COMMISSIONER: Yes, that is what the article

says, but I say have you in mind any particular indus-

try to which that might apply? For instance, I would

like to know if it applies to the cotton industry

or the woolen industry?

THE COMMISSIONER:

THE COMMISSIONER: Does it apply to our artificial

silk industry? Does it apply to our woolen industry?

MR. McLELLAN: Well, I rather thought that the basis

was a little deeper than that, and that is you cannot

take as a basis in the industry those who were

participating in it who had not reasonable opportunity

for success. For instance --

THE COMMISSIONER: You mean to say that if you take

for instance, your cotton industry and find that

nine-tenths of the cotton factories have no chance

of success that you disregard the whole industry; we

won't protect cotton. That is the way it seems to

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as soon as you have turned against cotton then any of

the industries can benefit.

MR. McLELLAN: But the question of the tariff is the

important thing.

THE COMMISSIONER: Mind you, the word "protection"

is put right in there, "protection". Now, that means

it is not a tariff for revenue, it is a tariff that

will protect, that is, it will mean the tariff

is not a tariff for revenue, it is a tariff that

will protect, that is, it will mean the tariff

is not a tariff for revenue, it is a tariff that

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those industries which are reasonably assured of sound opportunities for success I wonder what particular industry can be pointed at of which it may be said, "now, this industry should not have that tariff protection". Perhaps you might think it over.

MR. McRUER: Well, it is the extent of the protection, how far are you going to carry it to give an opportunity for success to each individual that may choose to go into it.

THE COMMISSIONER: That is, once you have decided that the industry, as such, ought to be protected then you measure the protection according to a scale such as you have there. That is to say, you say "we will make it just so high to protect those who can get on with a good chance of success". "We are not going to make it so terribly high that the poorest factory can go and thrive under it".

MR. KELLOCK: It says so in article 11.

MR. McRUER: Otherwise, just the minute that you get it up a little higher then it brings in a few more, and then there are a few more lame ducks to help fly.

THE COMMISSIONER: Well now, that is article 10, and if I were construing it I think I would have to assume that there may be whole industries which should have no protection at all because their chances of success here in this country are not sound.

MR. McRUER: I will give your lordship an example that has been taken as an example --

THE COMMISSIONER: This does not refer only to textiles, of course.

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 sound opportunities for success I wonder what parties
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 "now, this industry should not have that tariff
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 MR. McRURK: I will give your lordship an example
 that has been taken as an example --

THE COMMISSIONER: This does not refer only to the

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MR. McRUER: They started out to protect glass in this country at one time, and they had the protection on for about a week, or something like that. Then, they decided to take it off.

5 THE COMMISSIONER: I suppose you might say there is a case.

MR. HEWARD: There are glass industries here.

MR. McRUER: It is not protected, is it?

10 MR. HEWARD: No, I don't think so, but it cannot be one of those who would not have a chance of success because there are some successful companies in Canada.

THE COMMISSIONER: Anyhow, that illustrates the thing.

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(page 14640 follows)

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MR. McRURRY: They started out to protect glass in this country at one time, and they had the protection on the spot a year, or something like that. They decided to take it off.

THE COMMISSIONER: I suppose you might say there

a case.

MR. McRURRY: There are many instances.

MR. McRURRY: It is not protected, is it?

MR. McRURRY: No, I don't think so, but it cannot

be one of those who would not have a chance of success

because there are some successful companies in Canada

that illustrate the

thing.

(page 1484C follows)

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THE COMMISSIONER: That illustrates the meaning of Article 10. But Article 11 says that protective duties shall not be more than would afford reasonable competition on the basis of the relative cost of economical and efficient production.

MR. McRUER: Well now, ---

THE COMMISSIONER: That would be very hard to define, reasonable competition.

MR. McRUER: It is pretty hard to define but it ---

THE COMMISSIONER: For instance, take the Woollen Industry, has only about 57 or 58% of the whole market. Their sponsors might say - we have not enough protection, this competition is unreasonable. But take the Hosiery industry, which are 98% of the whole market, they would have to admit they are sufficiently protected.

MR. McRUER: Then coming to the Woollen Manufacture again,---

THE COMMISSIONER: Perhaps he is not saying that.

MR. McRUER: I know but what portion of the home market has he got in respect to the class of goods that he manufactures? You may have woollens that come in that are not manufactured here at all but if they are subject to a duty from any other country then they are classed as dutiable goods and they show as importations from Great Britain, and he says - well, I have only got 57%. But he may have a tariff that gives him 70 or 80 or 90% on the class of goods that he manufactures. So that these are all very

THE COMMISSIONER: That illustrates the meaning
of Article 10. But Article 11 says that protect
duties shall not be more than would afford reasonable
competition on the basis of the relative cost of
domestic and foreign production.

MR. McNEIL: Well now, ---
THE COMMISSIONER: That would be very hard to
define, reasonable competition.

MR. McNEIL: It is pretty hard to define but it
THE COMMISSIONER: For instance, take the wool
industry, has only about 5% or 6% of the whole
Their sponsors might say - we have not enough protection
this competition is unreasonable. But take the
wool industry, which are 95% of the whole market
they would have to admit they are sufficiently protected
MR. McNEIL: Then coming to the wool industry

THE COMMISSIONER: Perhaps he is not saying that
MR. McNEIL: I know but what portion of the home
market has he got in respect to the class of goods
that he manufactures? You may have woolens that
come in that are not manufactured here at all but
they are subject to a duty from any other country
than they are classed as dutiable goods and very
as importations from Great Britain, and he says -
Well, I have only 5%.

But he may have a tariff
that gives him 5% or 10% or 15% or 20% or 25% or 30% or 35% or 40% or 45% or 50% or 55% or 60% or 65% or 70% or 75% or 80% or 85% or 90% or 95% or 100% or more.

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difficult for us. But underlying this, at any rate, is a principle that the protective tariff is not intended to be a prohibitive one.

5 THE COMMISSIONER: Insofar as Great Britain is concerned.

MR. McRUER: Yes.

THE COMMISSIONER: It is supposed to allow for reasonable competition.

10 MR. McRUER: Yes. Just before I pass to the question of "Cost of production" and some other things that I hope will take me a much shorter time, I want to refer your lordship to one or two things in relation to tariff protection before I leave it completely and its relation to costs.

15 THE COMMISSIONER: That is after page 246?

MR. McRUER: Yes, my lord.

THE COMMISSIONER: Before page 247.

20 MR. McRUER: Before I go on with that portion of my brief, I wish to refer your lordship to a very excellent brief that I mentioned the other day prepared by the Honourable Mr. Rogers. It is a submission on Dominion and Provincial relations.

25 THE COMMISSIONER: To whom was it submitted?

MR. McRUER: To a royal commission. He was retained by the Province of Nova Scotia to submit the brief to a Royal Commission that was investigating.

30 MR. HEWARD: A Royal Commission appointed by Nova Scotia to ascertain ---

intended to be a prohibitive one.

THE COMMISSIONER: Insofar as Great Britain

is concerned.

MR. MEMBER: Yes.

THE COMMISSIONER: It is supposed to allow for

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MR. MEMBER: Yes. Just before I pass to the question

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MR. MEMBER: Yes, my lord.

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THE COMMISSIONER: To whom was it submitted?

MR. MEMBER: To a royal commission. He was retained

by the Province of Nova Scotia to submit the brief

to a royal commission that was constituted.

MR. MEMBER: A royal commission constituted by

the Governor in Council.

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MR. McRUER: Yes, It consisted of Professor John Harry Jones, Chairman, Dr. Alexander S. Johnston and Dr. Harold Innes. It made its report in 1934.

5 THE COMMISSIONER: Well, could we make that an Exhibit, this brief you refer to?

MR. McRUER: Not very well because I have taken it from the Parliamentary Library and the Report is from the Bureau of Statistics Library.

10 THE COMMISSIONER: Well, we will see that it is put in the custody of the Secretary anyhow.

MR. McRUER: Yes. There is a presentation on tariff matters that is made by Mr. Rogers that I wish to quote to your lordship for consideration.

15 THE COMMISSIONER: It will, of course, be available to counsel too representing these companies.

MR. McRUER: Yes. It is merely quoted as an argumentative statement.

20 MR. BRUNEAU: It was to build up the Maritime case, my lord, for a special purpose.

MR. McRUER: Yes, and I am quoting it for a special purpose. It builds up a strong case for seven provinces out of nine in the Dominion of Canada.

25 At page 54 Mr. Rogers deals with the decline of manufacturing in Nove Scotia and we have had strong evidence of that in the evidence that has been put before the Commission of the closing up of these outside mills and the smaller mills, and this applies

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1934

MR. MORRIS: Yes, it consisted of Professor

(The name of the Professor is not known.)

and Mr. Harold James; it made its report in 1934.

THE COMMISSIONER: Well, could we make that an

exhibit, this prior to your report?

MR. MORRIS: Not very well because I have taken

from the Parliamentary Library and the report is from

the Bureau of Statistics Library.

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at page 24 Mr. Rogers deals with the decline of

the industry in the Maritime and the fact that

the industry is now in a position that it has

before the Commission and the fact that it is

in a position that it is now in a position that it is

in a degree also not only to the other provinces but to the rural part of some of our provinces of Ontario and Quebec because Mr. Rogers puts it this way that the tariff is a subsidy and the benefit of that subsidy goes to those who manufacture protected goods and those districts in which the factories are get the benefit of the subsidy while the other districts, where the consumers are, pay the subsidy. They are the taxpayers. The others are the ones in whose districts it is spent. So that it extends in principle not only to other provinces than Ontario and Quebec but extends insofar as the Textile Industry is concerned in principle to many districts of Ontario. Take, for instance, all Northern Ontario where there is not a textile factory or a factory of any kind scarcely that is enjoying the benefit of protection. Now, Mr. Rogers at page 54 makes this statement:

"It is asserted as a general principle that industries in Ontario and Quebec have natural advantages of situations in relation to raw material, labour force, and markets which enable them to take full advantage of the so-called economies of large-scale production. We are asked to believe that these economies of large scale production will enable an industry to protect itself more adequately from foreign competition, and are passed on to the consumers, either in part or in full, through lower prices

in a degree also not only to the other provinces but to the rural part of some of our provinces of Ontario and Quebec because Mr. Rogers puts it this way that tariff is a subsidy and the benefit of that subsidy goes to those who manufacture protected goods and not to the consumer. He says that the benefit of the subsidy while the other districts, where the consumers are, pay the subsidy. They are the taxpayers. The others are the ones in whose districts it is spent. So that it extends in principle not only to other provinces than Ontario and Quebec but extends insofar as the textile industry is concerned to all the provinces of Canada. Now, for instance, all the provinces have not a textile factory or a factory of any kind so that is enjoying the benefit of protection. Now, Mr. Rogers at page 54 makes this statement: "It is asserted as a general principle that industries in Ontario and Quebec have natural advantages of situations in relation to raw material, labour force, and markets which enable them to take full advantage of the so-called economies of large-scale production. We are asked to believe that these economies of large scale production will enable an industry to protect itself more adequately from foreign competition, and we are asked on to the consumer to pay for it, through some price

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made possible by the lowered cost per unit of the commodity manufactured. Whether such economies are thus passed on to the consumer in many cases is open to grave doubt. It will depend on the reality of internal competition, and the Canadian Industrial field is still so narrow as to raise serious misgivings as to the extent of true competition in many lines of manufacturing."

That is a sort of preface to something I am going to deal with in my brief.

"The existence of monopoly, trade combines, and friendly price agreements within the shelter of a protective tariff, is not always capable of proof, but that it exists over a considerable range of manufacturing is scarcely open to question. Undoubtedly, a substantial proportion of the economies of large scale production are not passed on to the consumer, but render possible a higher margin of profit for the industry and go into the safety deposit boxes of company promoters or the pockets of shareholders. Certainly the proportion of benefits that is returned to the people of this Province is not substantial."

Now, at page 88 is a chapter headed "The Provincial

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scale production are not passed on to the consumer
but rather constitute a slight margin of

profit for the industry and go into the
safety deposit boxes of company promoters
or the pockets of shareholders.

Certainly the proportion of benefits that
is returned to the people of this Province
is not substantial."

Now, at page 88 is a chapter headed "The Provincial

Incidents of the Canadian Tariff," and the first paragraph on page 88 reads as follows:

"The tariff duty is a tax and a subsidy.

It is a subsidy in the same sense in which

a bounty is a subsidy."

I feel greatly gratified to find the same statements I had made in my brief before I came upon this very excellent work.

MR. KELLOCK: I thought your statements were original.

MR. McRUER: Well, I thought they were capable of patenting as an original invention but I find they are not.

"The only material difference is that a bounty is a fixed sum, whereas a tariff subsidy is an uncertain sum."

MR. McRUER: I think I put that the difference was that the Government had much less control over the tariff subsidy than they had over a direct subsidy.

"In the case of the bounty, moreover, the amount of the subsidy is collected by the Government, from the taxpayers, and is then paid over directly to a subsidized industry, whereas in the case of the tariff subsidy the government merely fixes the rate of duty, and the subsidy itself is paid by the consumers of the commodity which is protected."

THE COMMISSIONER: That is, the difference between

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Incidents of the Canadian tariff," and the first

paragraph on page 88 reads as follows:

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itself is paid by the consumers of the commodity

which is protected."

THE CHAIRMAN: Now is there any further question?

free trade price and price made possible by the tariff.

MR. McRUER: Well, the price charged by---

THE COMMISSIONER: Yes, under the Tariff.

5 MR. McRUER: Yes, I think that is the only accurate way to put it.

THE COMMISSIONER: Insofar as that price is higher than the free trade price,

10 MR. McRUER: Yes. At the foot of page 88:

"It is submitted therefore, that the tariff is a form of subsidy, which, while given directly to industries, is in part a contribution to the development of the provinces, whose industries benefit thereunder. If this subsidy were paid directly out of the Dominion Treasury in the form of bounties to particular industries, in particular provinces, it would be comparatively 15 easy to determine how such bounties should be distributed in an equitable manner among the several provinces, having regard to the resources and needs of their populations. A tariff subsidy, however, is not paid out of revenues. It frequently has the effect of contracting 20 revenues."

25 And that is important.

"It is paid by those who consume the commodities manufactured by the protected industries, 30 so that the real burden of paying the subsidy

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free trade price and price made possible by the
tariff.

Mr. Chamberlain: Yes, under the tariff.

Mr. Chamberlain: Yes, I think that is the only accurate
way to put it.

Mr. Chamberlain: Insofar as that price is higher
than the free trade price.

Mr. Chamberlain: Yes. At the foot of page 22:

"It is submitted therefore, that the tariff
is a form of subsidy, which, while given directly
to industries, is in part a contribution
to the development of the provinces, whose

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It is paid by those who consume the commodities

manufactured by the protected industries,

and so that the effect of paying the subsidy

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may fall upon sections or provinces which do not share either directly or indirectly in the industrial development it is designed to promote.

5 If, for example, the Canadian Federation consisted of three adjoining provinces and tariff duties were so imposed as to promote a development of manufacturing in the central province, and no development of manufacturing occurred
10 in the others, it is to be doubted that these other provinces would contribute a disproportionate share of the tariff subsidy through the added cost of the manufactured products
15 which they were compelled to buy from the central province?"

THE COMMISSIONER: I think, interrupting you,
I think it would be of use to ascertain to what extent
20 the revenues of the country have increased or decreased, according to the tariff, if we can, with textiles.

MR. McRUER: I will ask Mr. Hooper to get that.
Have you got it, Mr. Whiteley, on that statement?

25 SECRETARY WHITELEY: There is a column there "Duty collected".

THE COMMISSIONER: How many years?

SECRETARY WHITELEY: 1929 to 1936.

THE COMMISSIONER: That is not far enough back.

30 MR. McRUER: He will have that. Mr. Howson and Mr. Hooper will get it.

1917

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not share either directly or indirectly in the
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If, for example, the Canadian Federation consists
of three adjoining provinces and tariff duties
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other provinces would contribute a share-
proportionate share of the tariff duty through
the added cost of the manufactured products
which they were compelled to pay from the
central province.
I think it would be of use to ascertain to what extent
the revenues of the country have increased or decreased
according to the tariff, if we can, with facilities.
Have you got it, Mr. Hiseley, on that statement?
There is a column there
THE COMMISSIONER: That is not far enough back.
MR. HISELEY: He will have that.
MR. HISELEY: Will you be so kind as to

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5 It is true that the citizens of the
central province would contribute a share of
the subsidy in their purchase of products manu-
factured in the Province, but at the same time,
they would be participating in the subsidy
paid to their own industries, either through
an enlarged market for agricultural and other
primary products afforded by the industrial
10 development stimulated by the subsidy or through
wages and salaries paid out by the subsidized
industries. In the case of the other
provinces, however, the consumers of manufactured
products would be paying out their proportion
15 of the subsidies, without receiving back any
of the direct benefits arising from the
industrial development promoted by it, unless
it can be demonstrated that they participate
substantially in the enlarged industrial markets
20 for raw materials, agricultural commodities
and other primary products.

25 The position in Canada, while not so simple
as this illustration, is analogous to it in
respect of the disproportionate burden borne
by the various provinces for the support of
manufacturing industries. Manufacturing
stimulated by the protective tariff is distributed
30 to some extent among the several provinces,
but there has been a disproportionate development

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as this illustration, is analogous to it in

respect of the disproportionate burden borne

by the various provinces in the respect of

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stimulated by the protective tariff in distributed

to and benefit would be several provinces,

but - and this is a significant consideration -

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in the central provinces of Ontario and Quebec. These provinces have received an excessive share of the tariff subsidy, and having relatively few export industries, have borne less than their reasonable share of the cost of the subsidy. Nova Scotia, at the Atlantic extremity of the Dominion, has been subsidized by the tariff in respect of certain industries, but on balance, she is contributing largely to the payment of the subsidy to the manufacturers of Central Canada, while at the same time her export industries, which form a large proportion of her total production, have had to bear a heavy share of the cost of the tariff subsidy paid to the Central Provinces."

The point Mr. Rogers is making there is that if a portion of the Dominion that is dependent on export trade, if you increase the cost of living to those consumers, that is, the goods they have to buy are increased in cost, you increase the cost of the goods they have to export and diminish their power of competition in the foreign markets of the world. That is as I interpret the case that he is putting.

"Admittedly, there is great difficulty in calculating the distribution of the tariff subsidy in Canada, and in estimating the proportionate cost of this subsidy which is borne by the several provinces.

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 calculating the distribution of the tariff
 subsidy in Canada, and in estimating the
 contribution that is made to the subsidy which is

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5 The Canadian tariff system, despite its baptismal
title of "The national policy", has been developed
without any clear relation to its effects upon
the economy of the provinces as such. Murmurs
of protest have been heard occasionally from
some of the Provinces which felt that certain
tariff changes were prejudicial to their interest,
but there has been no general movement among the
dissentient provinces strong enough to bring
about a general inquiry. It is not inappropriate
that such a movement should be initiated at this
time by Nova Scotia. The latest and senior
member, so to speak, of the Maritime group
of provinces on the Atlantic Seaboard.
Other provinces, conceivably, may have an
even stronger case against the tariff situation
as constituted at present, but historically
Nova Scotia was the first to express misgivings
as to the results of the protective policy
upon the Maritime section of the Dominion,
and an experience of more than half a century
under the National Policy has afforded convincing
proof that these early misgivings were not ill-
founded.

It must be recognized that some of the
effects of the Tariff policy of the Dominion
on Nova Scotia are concrete and visible,
while others are intangible and obscure.

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The Dominion Tariff Commission, which has been developed

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and an experience of more than half a century

has not been sufficient to bring about a change in

policy.

It must be recognized that none of the

effects of the tariff policy of the Dominion

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while others are intangible and obscure.

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The visible effects are at least partially susceptible of measurements in monetary terms. The intangible effects, while no less important for the student or statesman, are not of a character which can be expressed or measured in definite terms. They relate to the morale of a community, its social vitality, those intellectual and spiritual qualities which are the one sure foundation of economic progress. In the analysis which follows, an attempt will be made to deal with the concrete evidence of the unequal incidents of the tariff upon the several provinces of the Dominion, and more particularly with such evidence as is capable of presentation in monetary terms."

Now, Mr. Rogers makes a reference to the work of a Commission or Committee in Australia, which conducted a broad investigation in regard to the effect of the protective policy on the Commonwealth as a whole.

MR. HEWARD: What page?

MR. McRUER: Page 90:

"The terms of reference issued to this Commission preclude a study of the effects of the tariff policy of the Dominion upon the national economy. They require, however, an investigation of the effect of the tariff policy of the Dominion upon the economic interest of Nova Scotia. They also require by necessary implication

(125)

The visible effects are at least partially susceptible of measurement in monetary terms. The intangible effects, while not less important for the student or statesman, are not of a character which can be expressed or measured in definite terms. They relate to the morale of a community, its social vitality, those intellectual and spiritual qualities which are the one sure foundation of economic progress. In the analysis which follows, an attempt will be made to deal with the concrete evidence of the unusual incidents of the tariff upon the several provinces of the Dominion, and more particularly with such evidence as is capable of presentation in monetary terms. Now, Mr. Rogers makes a reference to the work of a Commission or Committee in Australia, which conducted a study of the effect of the protective policy on the Commonwealth as a whole.

MR. ROGERS: What page?
MR. McHUGH: Page 30.

The terms of reference issued to this Commission preclude a study of the effects of the tariff policy of the Dominion upon the individual provinces. They require, however, an investigation of the effect of the tariff policy of the Dominion upon the economic life of the whole.

Now the question arises of how much of the tariff policy of the Dominion is capable of being expressed in monetary terms.

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a study of the gains received and losses suffered by the several provinces of the Dominion under the protective system.

Up to the present time no attempt has been made to measure either the net affect of the protective tariff upon any one of the provinces of the Dominion of Canada or the relative incidents of the tariff upon the various provinces which comprise the federation. There have been many specific enquiries upon the protection afforded to particular industries located either wholly or chiefly in one province, but the provincial incident of the tariff has arisen only indirectly in such cases.

Numerous enquiries have been made into the financial relations between the Dominion and the Provinces. One might have expected that in the course of such enquiries the burden of the tariff upon particular provinces would call for a special investigation. Such, however, has not been the case. Although the National policy of 1879 has been in operation for some 55 years, no ~~etc~~ scientific study of its provincial incidents has ever been attempted."

Now, Mr. Rogers does make ---

THE COMMISSIONER: What is that last page you are reading from?

MR. McRUER: Page 90.

a study of the gains received and losses suffered
by the several provinces of the Dominion under
the present tariff system.
Up to the present time no attempt has been
made to measure either the net effect of the
protective tariff upon any one of the provinces
of the Dominion of Canada or the relative incidence
of the tariff upon the various provinces which
comprise the Federation. There have been
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or chiefly in one province, but the provincial
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in such cases.
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for a special investigation. Such, however,
has been the policy of 1873 has been in operation for some
33 years, no scientific study of its provincial
incidence has ever been attempted."

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Now, Mr. Rogers in Chapter 9 at page 105 deals with the tariff in relation to the existing distribution of industrial activity in Nova Scotia. The only textile manufacturers that I see referred to in the list are hosiery and knitted goods, three establishments, with a capital investment of \$2,093,249.00 employing 607 employees and wages and salaries paid of \$461,000 a year.

MR. KELLOCK: There are more than that, of course,

MR. McRUER: In Nova Scotia?

MR. KELLOCK: Yes.

MR. McRUER: At page 121 Mr. Rogers points out that if foreign competition is excluded then action must be taken to see to domestic competition. At page 122 he makes this reference:

"A tariff policy with a true national objective, would recognize the importance of maintaining the health of industries dependent upon export markets, especially as such industries are essential to the economic development of seven of the nine provinces of the Dominion. In recognition of this fact these industries, agriculture, mining, fishing, and lumbering would be relieved at least of tariff duties on all instruments of production essential to their operation. In other words the vital interest of seven provinces in lower costs of production in

Now, Mr. Rogers in Chapter 2 at page 100 deals with the

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ments, with a capital investment of \$2,000,000.

employing 600 employees and wages and salaries paid

at \$100,000.

MR. KELLER: There are more than that, of course,

MR. ROGERS: In Nova Scotia.

MR. KELLER: Yes.

MR. ROGERS: At page 121 Mr. Rogers points out

that if foreign competition is excluded then action

must be taken to see to domestic competition. At

page 122 he makes this reference:

"A tariff policy with a free national objective

would recognize the importance of maintaining the

position of industries which are essential to

especially as such industries are essential to

the economic development of seven of the nine

provinces of the Dominion. In recognition

of this fact these industries, agriculture,

mining, fishing, and lumbering would be relieved

least of tariff duties on all instruments of

production essential to their operation.

In other words the vital interest of seven

provinces in lower costs of production is

5 in primary industries compelled to sell their products in world markets would be given priority over considerations urged in support of the manufacture of these instruments of production in Canada behind a protective tariff.

10 Similarly, a tariff policy with a true national objective would seem to call for the creation of a board such as a Federal Trade Commission which would be entrusted with the duty of hearing complaints of unfair competition and discrimination designed to undermine and destroy small industrial establishments catering to neighbourhood or provincial markets."

15 What Mr. Rogers refers to there, speaks in different portions of his brief of, that is, the large manufacturer will by unfair competition and cutting of prices destroy the small fellow in the neighbourhood and then after he has destroyed or his business picked up by the large manufacturer, then the consumers are in the hands of the large manufacturer. That is something that was discussed rather at length in the

20 Price Spreads Inquiry.

25 "It is a truism that free competition in the sense of competition permitted by law has not always been fair competition. In Nova Scotia as well as in other provinces the road to large scale production and the concentration of manufacturing in Ontario and Quebec has

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AN ADVISORY COMMITTEE COMPOSED OF ALL THE

MEMBERS OF THE BOARD OF TRADE AND THE

OVER CONSIDERATIONS WOULD BE IN SUPPORT OF THE

MANUFACTURE OF THESE INSTRUMENTS OF PRODUCTION

IN CANADA BEHIND A PROTECTIVE TARIFF.

STIMULATING, A TARIFF POLICY WITH A FINE NATIONAL

OBJECTIVE WOULD SEEM TO CALL FOR THE CREATION

OF A BOARD SUCH AS A FEDERAL TRADE COMMISSION

WHICH WOULD BE ENTRUSTED WITH THE DUTY OF

HEARING COMPLAINTS OF UNFAIR COMPETITION AND

DISCRIMINATION DESIGNED TO UNDERMINE AND DESTROY

SMALL BUSINESS ENTERPRISES

NEIGHBOURHOOD OR PROVINCIAL MARKETS.

WHAT MR. ROGERS REFERS TO THERE, SPEAKS IN THE FAVOR

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PRICES DESTROY THE SMALL FELLOW IN THE NEIGHBOURHOOD

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AS WELL AS IN OTHER COUNTRIES THE ROAD TO

IN THE SMALL BUSINESS AND THE CONSUMER

OF THE SMALL BUSINESS AND THE CONSUMER

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been strewn with the wreckage of small industries whose destruction has involved a social loss and disturbance which by no means has been balanced always by a gain for the national economist."

Of course, the real thing underlying all that is, that is, when you have, for instance, the control of industries passing out of the hands of the individual. That is, take the Penman Manufacturing Company. John Penman builds it up. He is part of the Town of Paris and the whole thing builds up around it. Then when the control is taken out and placed in the hands of people in Montreal, an entirely different aspect comes into the economic affairs of the community, and Mr. Rogers is pointing out that the large industries destroy the smaller ones, and I submit that under a more moderate tariff the small one may go on and exist, but when the inducement is there for those who do no work in the industry at all, come and put their money in it and expect their money to earn - or put no money in it and expect earnings on stock they get for no money, there is a new situation created.

THE COMMISSIONER: I suppose the trend of your remarks would apply also to mergers.

MR. McRUER: Yes, my lord, absolutely. Then at page 181, Mr. Rogers reviews the reference that was made to this special Economic Enquiry in regard to the Australian Tariff in 1929, and he makes some observations

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destroy the smaller ones, and I submit that under a
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exist, but when the inducement is there for those
who do no work in the industry at all, come and put
their money in it and expect their money to earn -
or put no money in it and expect earnings on stock
they get for no money, there is a new situation created.
THE COMMISSIONER: I suppose the trend of your
remarks would apply also to railways.
MR. MONTGOMERY: Yes, my lord, absolutely. Then at
181, Mr. Rogers reviews the reference that was
made to this special Economic Inquiry in regard to the
Canadian tariff in 1929, and he makes some observations

in regard to that that are very pertinent, and at
page 182 he states:

"In Canada, as in Australia, the differences
in taxable capacity of the Provinces of the
Federation are difficult to measure in exact
terms. There are, however, certain indices
which assist greatly in obtaining an approximate
measurement of these differences. It can be
demonstrated that the cumulative burden of the
unequal incident of the tariff subsidies and
tariff costs over a long period of years,
has had a marked influence on the taxable capacity
of various provinces of the Dominion. It is
our contention indeed, that the excess costs
of the tariff have imposed such a drain upon the
annual income of some of the Provinces, as to
handicap them seriously in attempting to meet
the costs of higher standards of motor highways,
and the insistent demand for expanding social
services."

THE COMMISSIONER: What does he mean by that?

That the Provinces are unable to get enough taxes out
of their people because of the high prices they paid
for textiles, we will say?

MR. McRUER: Well, I take it what he means is
this: that the purchasing power of the Provinces
is depleted.

THE COMMISSIONER: He is talking of the Governments

1911

It is true that the tariff is not a

tariff in itself

"In Canada, as in Australia, the difference

in taxable capacity of the provinces of the

Federation are difficult to measure in exact

terms. The only thing certain is that

which varies greatly in obtaining an approximation

measurement of these differences. It can be

demonstrated that the cumulative burden of the

tariff is not a long period of years,

tariff costs over a long period of years,

has had a marked influence on the various

of the tariff have imposed such a drain upon the

annual income of some of the provinces, as to

handicap them seriously in attempting to meet

the costs of higher standards of motor highways,

and the insistent demand for expanding social

services.

THE QUESTION: What does he mean by that?

That the provinces are unable to get enough taxes out

of their people because of the high prices they paid

for tariffs, as will say?

Yes, because, as I have already pointed out in

that fact the provinces are not in a position

to pay.

you see there, when he talks of highways being built, etc. That is, money spent by the Government.

5 MR. McRUER: Yes, I think that is what he means, that they cannot increase their taxes because they are taxed in this other way to this extent.

MR. HEWARD: As I remember it, one of the objectives of this Brief was to prepare a way for an application for a higher subsidy from the Dominion.

10 THE COMMISSIONER: I suppose it comes to this - that the Provinces impose direct taxation and he says our direct taxation might be higher if our consuming citizens did not have to pay so much indirect taxes in the way of clothing, among other things.

15 MR. BRUNEAU: I think, if I remember his Brief, he points out indirect taxes had been given up by the Province in 1887. They were compensated.

20 THE COMMISSIONER: That may be but still the fact apparently is what he says here - our people pay so much indirect taxes under the tariff that they cannot afford to give us enough money to pay our taxes.

25 MR. McRUER: And it goes on to say:

"The unequal incidence of the tariff on the Provinces of the Dominion may be illustrated by repeating for the present purpose, the table of tariff subsidies and tariff costs presented at an earlier stage of this submission."

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for the Government, and the Government is always willing to do that in any way possible.

MR. McLEOD: Yes, I think that is what he means.

MR. McLEOD: I think that is what he means.

are taken in this other way to this extent.

MR. McLEOD: As I remember it, one of the

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THE COMMISSIONER: I suppose it comes to this -

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THE COMMISSIONER: That may be but still the fact

is that the Province is what he says here -

so much indirect taxes under the tariff that they

cannot afford to give us enough money to pay our

MR. McLEOD: And it goes on to say:

"The unequal incidence of the tariff on the

provinces of the Dominion may be illustrated

by repeating for the present purpose, the table

of the tariff on the various commodities.

It is further stated in this document.

Now, here is a table which appears on page 183 and is extremely interesting. In the province of Prince Edward Island it is so much that the tariff subsidy per capita is 5.32.

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THE COMMISSIONER: The tariff subsidy?

MR. McRUER: Yes, that is the benefit that the province would get from protection. The tariff costs per capita was 23.20, a net loss per capita of 17.88. In Nova Scotia ---

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THE COMMISSIONER: Then he says, "Per capita" what is the first figure of 5.32?

MR. McRUER: That is per head of population.

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THE COMMISSIONER: Is he referring to the amount of indirect taxes paid by the people of that province?

MR. McRUER: Amount of indirect taxes that they pay.

THE COMMISSIONER: Is how much?

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MR. McRUER: \$23.20.

THE COMMISSIONER: What is \$5.00 and some cents?

MR. McRUER: That would be the benefit derived on the way that he worked it out, all the way through.

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THE COMMISSIONER: I know but what goes to make up this five dollars?

MR. McRUER: Well, he worked it out on the basis of protection on protected articles within the Province.

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THE COMMISSIONER: Within Prince Edward Island?

Now, here is a table which appears on page 188 and

is extremely interesting. In the Province of

Prince Edward Island it is so much that the tariff

subsidy per capita is 5.32.

THE COMMISSIONER: The tariff subsidy?

MR. MORRIS: Yes, that is the benefit that the

Province would get from protection. The tariff

costs per capita was 22.20, a net loss per capita

of 17.88. In Nova Scotia ---

THE COMMISSIONER: Now we will, what is the

what is the final figure of 5.32?

MR. MORRIS: That is per head of population.

THE COMMISSIONER: Is he referring to the amount

of indirect taxes paid by the people of that Province

MR. MORRIS: Amount of indirect taxes that they

pay.

THE COMMISSIONER: Is now money?

MR. MORRIS: Yes, sir.

THE COMMISSIONER: What is \$5.00 and some cents?

MR. MORRIS: That would be the amount received

on the way that he worked it out, all the way

through.

THE COMMISSIONER: I know but what goes to make

up this five dollars?

MR. MORRIS: Well, he worked it out on the basis

of protection on protected articles within the

Province.

MR. MORRIS: Within Prince Edward Island?

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MR. McRUER: Yes. The Brief shows a table of how it was worked out. As I recollect it, he worked it out in this way: He took the tariff that goods would have paid had they entered Canada and then he took the production of those goods, the amount of production in Canada or in the respective provinces and then took the percentage of protection that they had as the subsidy they paid. I don't know that it is altogether an accurate way of ---

THE COMMISSIONER: If he did, that is how he arrived at the figure of 23.20. But that does not tell me how he arrived at his figure of 5.32.

MR. McRUER: That would be on the basis, I take it, of protection on the tariff protected articles in Prince Edward, and the share they would have in the subsidy, so to speak, in all those goods. For instance, if it amounted to \$5,000,000 all over the province, \$150,000 was the subsidy.

THE COMMISSIONER: \$5,000,000 all over the Dominion, you mean?

MR. McRUER: Yes. Nova Scotia, the tariff subsidy per capita was 18.50. The tariff cost per capita was 30.78 or a net loss to Nova Scotia of 12.28 per capita. New Brunswick, the tariff subsidy per capita was 19.91. The tariff cost per capita was 31.58 or a net loss per capita of 11.67. Quebec, the tariff subsidy per capita was 46.23. The tariff cost per capita was 35.20 or

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MR. MORRIS: Yes. The brief shows a table of how

it was worked out. As I recollect it, he worked it out in this way: He took the tariff that goods would have paid had they entered Canada and then he took the production of those goods, the amount of production in Canada or in the respective provinces and then took the percentage of protection that they had as the subsidy they paid. I don't know that it is altogether an accurate way of ---

THE COMMISSIONER: It he did, that is how he arrived at the figure of 23.20. But that does not tell me how he arrived at his figure of 8.22.

MR. MORRIS: That would be on the basis, I take it, of protection on the tariff protected articles in those States, and the same way for the goods in the subsidy, so to speak, in all those goods. For instance, if it amounted to \$5,000,000 all over the province, \$100,000 was the subsidy.

THE COMMISSIONER: \$5,000,000 all over the

MR. MORRIS: Yes. Nova Scotia, the tariff subsidy per capita was 12.50. The tariff cost per capita was 30.18 or a net loss to Nova Scotia of 17.68 per capita. New Brunswick, the tariff subsidy per capita was 12.91. The tariff cost per capita was 31.58 or a net loss per capita of 18.67. The tariff subsidy per capita was 12.75. The tariff cost per capita was 31.58 or a net loss per capita of 18.83.

14660

5 a net gain per capita of 11.03. Ontario, the
tariff subsidy per capita, 64.32. The tariff cost
per capita, 49.17, or a net gain per capita of 15.15.
Manitoba, the tariff subsidy per capita 28.44.
The tariff cost per capita, 41.69, or a net loss
per capita, 13.25. Saskatchewan, the tariff subsidy
per capita 3.55 - away below Prince Edward Island -
the tariff cost per capita, 31.71 or a net loss
10 per capita of 28.16.

THE COMMISSIONER: I protest against that.

15 MR. McRUER: Alberta, tariff subsidy per capita
11.22. Tariff cost per capita 38.15 or a net
loss per capita 26.93. British Columbia, tariff
subsidy per capita 32.03, tariff cost per capita
54.36 or a net loss per capita of 22.33. So that
demonstrates the point that Mr. Rogers is making --

20 MR. KELLOCK: Sounds like Mr. Evans' report,
my lord.

25 MR. McRUER: So that demonstrates the point that
Mr. Rogers is making that the provinces, and
especially those provinces that at the present time
are having a more difficult time than they were
at the time that Mr. Rogers wrote his brief, are
still paying the subsidy in exactly the same pro-
portion, with very little modification, that they
did through all the depression period.

30 THE COMMISSIONER: What year was this written in?

1900

a net gain per capita of 11.03. On the other hand,

tariff subsidy per capita, 64.32. The tariff cost

per capita, 49.14, or a net gain per capita of 15.18.

Moreover, the tariff subsidy per capita 38.44.

The tariff cost per capita, 41.89, or a net loss

per capita, 12.45. The tariff subsidy per capita

per capita 3.55 - away below Prime Edward Island -

the tariff cost per capita, 31.41 or a net loss

per capita of 28.16.

The tariff subsidy per capita, 31.41 or a net loss

per capita, 12.45. The tariff subsidy per capita

11.32. Tariff cost per capita 38.15 or a net

loss per capita 26.83. British Columbia, tariff

subsidy per capita 28.08, tariff cost per capita

64.32 or a net loss per capita of 36.24. So that

the tariff cost per capita, 31.41 or a net loss

per capita, 12.45. The tariff subsidy per capita

my lord.

MR. MURPHY: So that demonstrates the point that

MR. ROGERS is making that the provinces, and

especially those provinces that at the present time

are having a more difficult time than they were

at the time that Mr. Rogers wrote his brief, are

still paying the subsidy in exactly the same pro-

portion, and they have no intention of doing

it through all the subsequent years.

MR. MURPHY: That is the point that I

MR. McRUER: This was written in 1931.

SECRETARY WHITELEY: 1933, is not it?

MR. McRUER: Yes.

THE COMMISSIONER: We will adjourn for ten
minutes.

-- Adjourned at 4 P.M.

the page 2, in the (14665 follows)

SECRET

1. The purpose of this document is to provide information on the status of the project.

2. The project is currently in the planning stage and is expected to be completed by the end of the year.

3. The project is being managed by the Project Manager, who is responsible for the overall progress and coordination of the project.

4. The project is being funded by the Department of Defense, which is providing the necessary resources for the project.

5. The project is being monitored by the Project Manager, who is providing regular reports on the progress of the project.

6. The project is being completed on schedule and is expected to be completed by the end of the year.

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On Resuming at 4.10:

5 MR. McRUER: I wish to make one or two references to the report of the Royal Commission Provincial Economic Enquiry of the province of Nova Scotia, dated in the year 1934.

THE COMMISSIONER: Where does that come from? Is that from the library?

10 MR. McRUER: Yes, my lord. I may be able to get some copies of it for the purpose of filing them.

THE COMMISSIONER: Is it a printed document?

15 MR. McRUER: Yes; we can get a copy by writing to Nova Scotia. This is the Royal Commission before which Mr. Rogers submitted his brief. At page 53 of the report, in the chapter Competition of Central Canada, there appears the following:-

20 "Again, some towns in the province have suffered through the closing of establishments of long standing. So long as they were owned by individuals or family groups they flourished, but in some cases they were sold, during the post war boom, to newly formed companies, in whose hands they came to grief. In other cases they were sold to large combines domiciled in
25 central Canada and closed down in pursuit of the policy of concentration of production."

30 Your lordship will remember that this was the very thing that was read from the minutes of the Dominion Textile Company, which indicated that they had concentrated their production in six large mills

THE COMMISSION

Mr. McMillan: I wish to make one or two references to the report of the Royal Commission on the Economic Development of the Province of Nova Scotia, dated in the year 1954.

THE COMMISSION: Where does that come from?

Is that from the library?

Mr. McMillan: Yes, my lord. I may be able to get some copies of it for the purpose of filling them.

THE COMMISSION: Is it a printed document?

Mr. McMillan: Yes; we can get a copy by writing to Nova Scotia. This is the Royal Commission before which Mr. Rogers submitted his brief. At page 33 of the report, in the chapter Competition of Central Canada, there appears the following:-

"Again, some towns in the province have suffered through the closing of establishments of long standing. So long as they were owned by individuals or family groups they flourished, but in some cases they were sold, during the post war boom, to newly formed companies, in whose hands they came to grief. In other cases they were sold to large concerns domiciled in central Canada and closed down in pursuit of the policy of concentration of production."

Your lordship will remember that this was the very thing that was read from the minutes of the meeting of the committee, which indicated that they

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and had closed several other mills. The statement goes on:-

5 "The policy of concentration, as contrasted
with the policy of maintaining a large number
of establishments, none of which is fully em-
ployed, is one that we have no desire to
criticize. Concentration is frequently a con-
10 dition of efficiency and if there is no pros-
pect of a real revival in the industry concerned,
it is unwise to delay the true solution of the
difficulty by perpetuating an inefficient method
of organization. Every case must obviously be
considered on its merits. But the fact remains
15 that the number of long established and
apparently well equipped factories of Nova
Scotia were closed down and the trade removed
to other parts of Canada. Amherst, in particu-
lar, has suffered from this movement and its
20 post war history calls for closer scrutiny than
was possible in the time at our disposal and
the resources available to us. We desire to
draw special attention to the statement of that
town and to recommend that it be made the sub-
25 ject of special investigation.

There is no evidence that the province of
Nova Scotia was singled out for attack. Central
Canadian manufacturers merely pursued the policy
that they would have pursued under similar cir-
30 cumstances in any other part of Canada. They

and had closed several other mills. The statement

goes on:-

"The policy of concentration, as contrasted with the policy of maintaining a large number of establishments, none of which is fully employed, is one that we have no desire to criticize. Concentration is frequently a condition of efficiency and if there is no prospect of a real revival in the industry concerned, it is unwise to delay the true solution of the difficulty by perpetrating an inefficient method of organization. Every case must obviously be considered on its merits. But the fact remains that the number of long established and apparently well equipped factories of Nova Scotia were closed down and the trade removed to other parts of Canada. Amherst, in particular, has suffered from this movement and its post war history calls for closer scrutiny than was possible in the time of our disposal and the resources available to us. We desire to draw special attention to the statement of that town and to recommend that it be made the subject of special investigation.

There is no evidence that the province of

has been the subject of any special investigation and that the resources available to us are not being fully utilized in the case of Amherst.

sought to destroy competition at the incipient stage by selling their products at the price that offered no hope to the new and struggling competitors, and as soon as the latter disappeared, they raised the price once more. If local competitors were strong enough to carry on the struggle for a time and therefore to increase the expense of such a struggle to the stronger body, the latter compromised by purchasing the business at an attractive price and closing down the factory. These devices, which are by no means confined to Canada, imply the existence of something other than price competition among the stronger firms in the industry. Such firms do not cut prices against each other; they compete at a tacitly accepted price even in their common market and anyone is able to enter with safety into a struggle with a new competitor in his own special market. In some cases there appeared to be presumptive evidence of the existence of something more definite than a tacitly accepted price, but we were not in a position to pursue this matter.

It is possible for those small manufacturers of Nova Scotia who believe themselves to be victims of Central Canadian manufacturers to seek an investigation of the circumstances under the Combines Investigation Act. But in practice the remedy is so little known and the

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...to ...
...stage by ...
...that offered no hope to the new and struggling
...competitors, and as soon as the latter disapp-
...ed, they raised the price once more. If local
...competitors were strong enough to carry on the
...struggle for a time and therefore to increase
...the expense of such a struggle to the stronger
...body, the latter compromised by purchasing the
...business at an attractive price and closing
...down the factory. These devices, which are
...by no means confined to Canada, imply the
...existence of a great and other than price com-
...petition among the stronger firms in the
...industry. ...
...against each other; they compete as a tacitly
...accepted price even in their common market
...and anyone is able to enter with safety into
...a struggle with a new competitor in his own
...special market. In some cases there appeared
...to be presumptive evidence of the existence
...of something more definite than a tacitly
...accepted price, but we were not in a position
...to pursue this matter.
...It is possible for those small manufacturers
...of Nova Scotia who believe themselves to be
...victims of Central Canadian manufacturers to
...seek an investigation of the circumstances
...with the Canadian Investigation Act. But in
...viewing the matter from this point of view

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procedure so difficult that the protection offered by the Combines Investigation Act is by no means sufficient. We feel that further steps should be taken and we return to the subject in the section defining recommendations in which we deal with the need both for an improvement in marketing and for a change in the method of dealing with unfair practices."

I shall have special references to make to the unfair practices of the textile industry when I come to that part of my brief. However, to continue with this report from which I am now reading. I should like to refer the Commission to page 79 under the head Conclusions and Recommendations, with particular reference to the title Recommendation on Tariffs.

There appears on page 79 the following statement:-

" We believe that the tariff policy of Canada has reacted unfavourably upon the economic development of Nova Scotia. It has tended to retard the growth of the exporting industries of the province without providing adequate compensation in other directions. It is true that, by means of the tariff and subventions the central Canadian market has been brought within the reach of the coal mining industry, which would otherwise have been the monopoly of the United States industry; and that the steel and car construction industries have received a share of the orders for railway material and

proceedings so difficult that the protection offered by the Commerce Investigation Act is by no means sufficient. We feel that further steps should be taken and we return to the subject in the section defining recommendations in which we deal with the need both for an improvement in marketing and for a change in the method of dealing with unfair practices.

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reference to the title Recommendation on Tariffs. There appears on page 79 the following statement: "We believe that the tariff policy of Canada has been based unwisely upon the economic development of the country. It has tended to retard the growth of the exporting industries of the province without providing adequate compensation in other directions. It is true that the means of the tariff and subventions the

the reach of the coal mining industry, which would otherwise have been the monopoly of the United States industry; and that the steel and our construction industry have been

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5 " equipment from the Canadian railways; and
that the Dominion government has assisted in
other ways. When, however, the advantages and
disadvantages have been set against each other,
we are definitely of the opinion that the fis-
cal policy pursued by successive governments
has reacted injuriously upon the welfare of
Nova Scotia.

10 We agree with the following statement quoted
from the brief submitted by the then government
of Nova Scotia to the Royal Commission on
Maritime Claims in 1926:

15 'Protection, or free trade, or an exclusively
revenue tariff may be advocated with some show
of logic, but surely no reasonable defence, no
consideration based on equity or sound public
policy, can be advanced in support of a system
under which Nova Scotians are compelled to buy
20 what they assume in a substantially protected
home market, and to sell what they produce in
a virtually unprotected one.' "

The report, at pages 80 and 81, goes on to deal
with tariff protection and the recommendations in re-
25 gard thereto. At page 80 the statement is made:-

30 " We believe, however, (and recommend accord-
ingly) that representatives of the industries
concerned should make representations to the
tariff commission and endeavour to secure
either a reduction of tariffs (which is to be
preferred) or an extension of the system of

"equipment from the Canadian railways; and
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other ways. When, however, the advantages and
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drawbacks on the materials they buy, whether imported from abroad or produced in Canada. In the latter case, of course, any relief that might be afforded would not be technically a drawback, that is, repayment, in full or in part, of a tariff actually paid in respect of an imported product; the payment in such a case might be of the nature of a subsidy representing compensation for a disability suffered by the exporter of, say, Nova Scotia fish or apples on account of the fact that he was compelled to pay a price for the Canadian product far higher than the world price."

At the foot of the page there is a paragraph to which I would direct your lordship's attention. It reads:-

"It has been submitted to us that the injury caused by a high tariff policy has been rendered more serious by the instability of tariffs, and the frequent and often unexpected changes that are made in the amount of import duties tell upon individual commodities. Frequent and unexpected changes increase the difficulties of making forward contracts and increase the risk of attaching to the investment of capital in individual industries affected by such changes. Tariff instability is like money instability and wage instability; it produces an element of chance or risk from which industry should be free. Moreover, it

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In the latter case, of course, any relief
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was compelled to pay a price for the Canadian
product far higher than the world price."
At the foot of the page there is a paragraph to which
I will refer later in this report.
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caused by a high tariff policy has been ren-
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ment of capital in individual industries
affected by such changes. Tariff instability
is like money instability and wage instability;
it is an element of chance or risk that
affects industry and trade."

"strengthens the tendency on the part of manufacturers to bring pressure upon members of the legislature to seek changes advantageous to their particular interests. It is held that stability in the tariff system, be the tariffs high or low, is a prerequisite of a steady policy of development and a safeguard against political pressure. We strongly support this view and have reached the conclusion that frequent changes throughout the world in the amounts imposed upon specific commodities in recent years have been partly responsible for the intensity of the present world depression and consequently for the intensity of the depression in Canada itself. But it is clear that it does not fall within our province to make any definite recommendation on that subject."

The burden of the tariff is then dealt with at page 150. I do not intend to read the whole page but there is one statement there to which I think attention must be directed. I quote:-

" In the main the tariff tends to press back on the less organized groups, particularly on the fishermen, the farmer and the lumbermen, and to a material extent even on the organized groups of the mining area. Nova Scotia as a region tends to be the end of the whip in the expansion of Canada under the national policy

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...the ... of ...

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expansion of Canada under the national policy

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5 "and to feel the effects of a decline in the
rate, and of a change in the tariff, of expansion,
most severely, by virtue of distance from
the central areas and in turn the effects of a
decline incidental on the depression. The long
term trend in Canadian development has coincided
with the short term trend with particularly
severe effects on the exposed groups of the
region. The costs of the tariff tend to shift
10 in relation to the stage of development, with
the result that mathematical calculations,
although extremely useful in attempting to give
precision to estimates of the burden, tend to
become out of date and require constant revision.²

15 With that observation I agree heartily, because
in working out the burden of the tariff you find
that if the competition comes from another country
today, tomorrow it may be entirely changed. I proceed
20 now with the question of costs of production, dealt
with in my brief at page 247. Very little can be
said with respect to that branch of the enquiry dealing
with costs of production. I must say that it
25 remains a great mystery, and it seems to be difficult
to come to any accurate decision in regard to cost of
production. Mr. Howson, in his questionnaire, had
certain sheets designed to obtain from the textile
companies their costs of production. The Dominion
30 Textile Company, probably the best organized of any

of the companies, could not give complete information and had no means of doing so. It was unable to tie up standard cost with actual operating cost. Canadian Cottons had what they called standard costs, but they were not able to give any information, on their questionnaire, with respect to the cost of production.

THE COMMISSIONER: Do you know whether the Tariff Board has made definite findings with regard to costs of production.

MR. McRUER: They went into the market. They did not find on cost of production as such, but they used cost of production on the basis of article 11 of the Canadian United Kingdom Treaty, I am informed.

THE COMMISSIONER: Have they found out what costs of production are? I should have thought that would be a bone of contention between the British and the Canadian manufacturers.

MR. McRUER: I make special reference to the cost of production submitted to the Tariff Board in connection with the cotton reference and the artificial silk reference, particularly the former, because it was stated that the costs of production submitted to the Tariff Board were submitted as the manufacturers' cost of production; but it was determined in this enquiry that they were not the manufacturers' cost of production but standard costs. I make special reference to the evidence on that particular matter.

MR. HEWARD: It will be remembered that in

of the companies, could not give complete information
had no means of doing so. It was unable to tie
up standard cost with actual operating cost. When
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connection with the Dominion Textile the respective costs were worked out and they coincided to within 1.2 per cent.

5 MR. McRUER: The terms of this commission expressly ask us to enquire into, and his lordship defined upon, costs of production.

THE COMMISSIONER: That is one of my worries.

10 MR. McRUER: I regret that we cannot give your lordship any greater help in that regard, but I give all the references to the evidences. I wish to quote now from the brief:-

15 " In many companies charges for repairs and betterments were charged to profits in one year but for the purpose of costing spread over a period of years. Charges for depreciation in the costs did not relate to depreciation put through from year to year."

20 In these standard costs certain items are charged for depreciation though they are not related to depreciation. They are not related to the depreciation actually charged on the books.

25 " Mr. Howson was unable to reconcile the information contained on the cost sheets for different fabrics filed with the Commission with the manufacturing costs of the companies, (Pages 12923 and 12924), notwithstanding the fact that the companies had endeavoured to assist him to do so and had given every co-
30 operation that they possibly could (Page 12924).

connection with the Dominion Textile the respective
costs were worked out and they coincided to within
1.2 per cent.

MR. BOWEN: The terms of this commission
expressly ask us to enquire into, and his honor in

THE COMMISSIONER: That is one of my worries.
MR. BOWEN: I repeat that we cannot give your
friendship any greater help in that regard, but I give
all the references to the evidence. I wish to quote
from the brief:-

"In many companies charges for repairs and
betterments were charged to profits in one
year but for the purpose of costing spread over
a period of years. Charges for depreciation in
the costs did not relate to depreciation but
through from year to year."

It is pointed out that they are not related
to depreciation though they are not related
to depreciation. They are not related to the
depreciation actually charged to the costs.

It is pointed out that the cost sheets for
different fabrics filed with the Commission
with the manufacturing costs of the companies,
fact that the companies had no account in
assist him to do so and that it was not
possible that the manufacturing costs were

They have filed certain cost sheets in connection with these various fabrics, but we cannot reconcile them with the actual costs of production.

The brief goes on:-

" The return of Canadian Cottons Limited to the Commission, in respect to costs, was a blank. There was no possibility of doing anything with Canadian Cottons Limited."

MR. BRUNEAU: My instructions are that we had requested Mr. Brown, our auditor, to secure every bit of available information and to co-operate in every way with the Commission, and we were under the impression that he had done so.

MR. McRUER: Mr. Brown could not do a thing, because they did not have the information.

MR. BRUNEAU: I do not know whether Mr. McRuer is suggesting that we did not co-operate with the Commission.

MR. McRUER: No, I have not said that at all. I read from the brief the statement that, notwithstanding the fact that the companies had endeavoured to assist him to do so, Mr. Howson was unable to reconcile the information.

MR. BRUNEAU: We spent a very considerable sum of money getting together a costing system covering twenty-four volumes, giving standard costs.

THE COMMISSIONER: I will not read the twenty-four volumes.

MR. McRUER: They have set up costs in these

that have filed certain cases in which
also with cases that are filed, but no more.
reconcile them with the actual costs of production.

The brief goes on:-

"The return of Canadian Cottons Limited to the
Commission, in respect to costs, was a blank.
There was no possibility of doing anything with
Canadian Cottons Limited."

MR. BRUNNEN: My instructions are that we had
examined Mr. Brown, and we had not been able to
get a bit of available information and to co-operate in
every way with the Commission, and we were under
the impression that he had done so.

MR. MORRIS: Mr. Brown could not do a thing,
because they did not have the information.

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of money getting together a costing system covering

THE COMMISSIONER: I will not read the twenty-

our volumes.

MR. MORRIS: They have set up costs in these

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large volumes, but as to cost of production, that is a different story.

MR. BRUNEAU: We are manufacturing about six thousand articles.

MR. McRUER: When they say that Japanese goods are sold below their cost of production, what they submit to us is not cost of production and they cannot produce it.

THE COMMISSIONER: And they do not know the Japanese cost of production.

MR. McRUER: No. The Montreal Cottons Limited did not make a return at all, but Penmans Limited made a very complete return, though it was subject to wide variations from year to year. With respect to Penmans, it is fair to say that we had the most complete return of any of the companies.

" Mr. Howson made a summary for the period from 1926 to 1935 in regard to standard costs and actual costs of Penmans Limited. In some cases the net profit, on the basis of the standard costs, would be greatly in excess of the net profit on the actual cost basis, and in some cases less. The following statement is a comparison of the net profit on the basis of standard cost and actual cost for this ten year period."

THE COMMISSIONER: On both bases.

MR. McRUER: Yes. The standard cost for the

1934

THEY WOULD NOT BE ABLE TO PRODUCE THEM

AT A FUTURE DATE

MR. BRYNE: WE ARE CURRENTLY ABOUT SIX

THOUSAND EXCISES.

MR. BRYNE: WHEN THEY SAY THAT JAPANESE GOODS

ARE SOLD BELOW THEIR COST OF PRODUCTION, WHAT THEY

ADMIT TO US IS NOT COST OF PRODUCTION AND THEY

ARE NOT SAYING IT.

THE COMMISSIONER: AND THEY DO NOT KNOW THE

JAPANESE COST OF PRODUCTION.

MR. BRYNE: NO. THE MONTREAL COTTONS LIMITED

DID NOT MAKE A RETURN AT ALL, BUT WERE LIMITED

MADE A VERY COMPLETE RETURN, THOUGH IT WAS SUBJECT TO

WIDE VARIATIONS FROM YEAR TO YEAR. WITH RESPECT TO

PARANAS, IT IS FAIR TO SAY THAT WE HAD THE MOST COM-

plete return of any of the companies.

MR. BRYNE: WOULD YOU MAKE A SUMMARY FOR THE PERIOD

FROM 1932 TO 1933 IN REGARD TO STANDARD COSTS

AND ACTUAL COSTS OF PARANAS LIMITED. IN 1932

STANDARD COST, ON THE BASIS OF THE

STANDARD COST, WILL BE ABOUT 10 CENTS

THE NET PROFIT ON THE ACTUAL COST BASIS, AND

IN 1933 THE NET PROFIT ON THE ACTUAL COST BASIS

IS A COMPARISON OF THE NET PROFIT ON THE BASIS

OF STANDARD COST AND ACTUAL COST FOR THE TEN

YEAR PERIOD."

MR. BRYNE: YES. THE STANDARD COST FOR THE

PERIOD WAS 10 CENTS.

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year 1926 shows \$857,184.54, whereas the net profit on the basis of the actual cost was \$668,758.46. In 1927 on the basis of the standard costs, the net profit is \$1,198,080.96 and on the basis of the actual cost it is \$767,869.77. In 1932 the situation is reversed, because we find in that year that on the basis of the standard cost the net profit is \$152,047.86 whereas on the basis of actual cost it is \$290,113.70. In 1933 the actual cost was well on the way to 90 per cent higher than the standard cost - that is, I mean to say, the profit on the basis of these respective costs. In 1934 the position is again reversed and we find that on the basis of the standard cost the figure is \$547,000.00 and on the basis of actual cost \$471,000.00. In 1935 the figures are pretty nearly even.

" In a letter to Mr. Howson, dated the 8th October 1936, (exhibit 968) Pemans Limited stated:-

'The cost per unit is our standard on normal cost. It is to be definitely understood that the cost per unit as shown has no definite relationship to 'selling price per unit'. Our standard costs are used for transferring merchandise from one account to another, pricing inventories, and a basis for determining manufacturing losses or gains. Such costs are not used for price setting.'

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Your 1938 shows \$887,184.84, whereas the net profit
on the basis of the actual cost was \$888,758.48. In
1937 on the basis of the standard costs, the net
profit is \$1,198,080.98 and on the basis of the
actual cost it is \$787,888.77. In 1938 the situation
is reversed, because we find in that year that on the
basis of the standard cost the net profit is
\$122,047.88 whereas on the basis of actual cost it is
\$290,113.70. In 1935 the actual cost was well on the
way to 90 per cent higher than the standard cost -
that is, I mean to say, the profit on the basis of
these respective costs. In 1934 the position is again
reversed and we find that on the basis of the standard
cost the figure is \$844,000.00 and on the basis of
actual cost \$871,000.00. In 1933 the figures are
pretty nearly even.

"In a letter to Mr. Hanson, dated the 28th
October 1938, (Exhibit 208) Hanson stated
stated:-

'The cost per unit is our standard on normal
cost. It is to be definitely understood that
the cost per unit as shown has no definite
relationship to 'selling price per unit'. Our
standard costs are used for determining per-
centage from one account to another, pricing
factories losses or gains. Such costs are not

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5 So that whenever the industry has no manufacturing costs to produce they say, "These are our costs on different articles"; and we have a definite statement from Penmans that standard costs are not used for price setting.

THE COMMISSIONER: But they must use something for the purpose of price setting.

10 MR. McRUER: What they use for price setting, my lord, is competition. There is another barometer for price setting, and that is competition. In connection with many of the articles that Penmans manufacture, I deal with them under their price arrangement. They get together with their competitors and fix
15 what prices they will charge.

MR. KELLOCK: On a few articles.

MR. McRUER: But they are articles of heavy production, and we probably do not know the whole story.

20 " The records of Associated Textiles of Canada Limited were sufficiently complete for Mr. Howson to compare the standard costs submitted as their costs of production with the actual manufacturing costs. Associated Textiles of Canada Limited filed with the Commission certain fabrics
25 together with cost sheets which were stated to show the cost of production. It however appears that the costs of production are much lower than the costs shown on these cost sheets.

30 On the basis of Company's cost sheets in 1935, the Company showed a loss on operations on

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the costs to produce they are, "fixed" and are
on different articles; and we have a definite
statement from persons that standard costs are not
used for price setting.
THE COMMISSIONER: But they must use something
for the purpose of price setting.
MR. BRIDGE: That they use for price setting, my
lord, is competition. There is another factor for
price setting, and that is competition, in some-
times it is the cost of the material and in some-
times, I deal with them under their price arrangement.
They set together with their competitors and fix
what prices they will charge.
MR. KILGORE: On a few articles.
MR. BRIDGE: But they are articles of heavy pro-
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together with cost sheets which were stated to
show the cost of production. It however appears
that the costs of production are much lower than
the costs shown on these cost sheets.
MR. BRIDGE: The costs of company's cost sheets in 1934
the company showed a loss on operations on

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"\$69,000. As a matter of fact, the profit for the year was \$140,444, the difference being again in the amounts charged to the cost sheets for material, labour and overhead expenses as against the actual cost of these items.

The gain was as follows:

Material	\$73,740
Labour	67,066
Overhead Expense	<u>68,592</u>
	\$209,398.

From these figures it is quite clear that individual costs prepared on the basis used in the cost system, would be substantially higher than the actual costs of production."

MR. KELLOCK: What do you mean by individual costs - the costs of particular articles?

MR. McRUER: Yes, but only for this company.

THE COMMISSIONER: "Individual costs" means cost per article?

MR. McRUER: Yes. So that we are faced with this position. We are told that the cost of production of these articles is as shown on these cost sheets and we find that in respect of the Associated Textiles costs of production they are substantially lower than those filed with the Commissioner.

" As to the costs, Mr. Cameron of Canadian Celanese Limited stated:

'We are running the factory as a unit today. In any allocation of costs that you get, you might

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"\$50,000. As a matter of fact, the profit
for the year was \$10,444, the difference
being again in the amounts charged to the costs
sheets for material, labour and overhead expenses
as against the actual cost of these items.
The gain was as follows:

Material	\$75,740
Labour	4,000
Overhead	10,000
Total	\$89,740

From these figures it is quite clear that
individual costs prepared on the basis used in
the cost system, would be substantially higher
than the actual costs of production."

MR. KELLER: What do you mean by individual

costs - the costs of particular articles?

MR. KELLER: Yes, but only for this company.

MR. KELLER: "Individual costs" means costs

of articles

MR. KELLER: Yes. So that we are faced with this

position. We are told that the cost of production of

these articles is as shown on these cost sheets and

we find that in respect of the Associated Textiles

costs of production they are substantially lower than

those filed with the Commissioner.

As to the other, Mr. Kellor, the figures are similar

to those of the Associated Textiles

figures, but the figures are not the same

any statement of cost that is not the

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bear in mind that it is a bit of guessing in a factory that is run as a whole unit, which starts as a chemical factory, yarn producing factory, fabrication and dyeing and finishing, and it is all in one unit and labour distribution, where it goes to, is very difficult."

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There are of course many other companies that operate in the same way; for instance there is Wabasso, with spinning and weaving and dyeing and all that, and many of the other large cotton companies. The statement of Mr. Cameron just illustrates the difficulty of relating the tariff protection to costs of production because, on the one hand, you have tariff protection which is a known quantity and on the other you have cost of production which can be represented as X.

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THE COMMISSIONER: Nevertheless, it is based on that?

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MR. McRUER: Yes.

THE COMMISSIONER: It speaks of reasonable competition on the basis of relative costs.

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MR. McRUER: I refer to that again later on in discussing the attitude of the industry generally to the government.

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THE COMMISSIONER: When these parties come together, as they have, I do not suppose that there would be agreement between the representatives of the home industry and those of the industry abroad

be in mind that it is a bit of a process in
a factory that is run as a whole unit, which
factory, for instance, is dyeing and finishing,
and it is all in one unit and labor division
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THE COMMISSIONER: Nevertheless, it is based on

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MR. ROBERTS: Yes.

THE COMMISSIONER: It speaks of reasonable com-

petition on the basis of relative costs.

MR. ROBERTS: I refer to that again later on in

discussing the attitude of the industry generally

to the Government.

THE COMMISSIONER: When these matters come to-

gether, as they have, I do not suppose that there

will be any great difficulty in understanding this

and those of the industry abroad

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as to each other's cost of production.

MR. McRUER: No, they do not agree.

MR. KELLOCK: They had a fight before the
Tariff Board at one time.

THE COMMISSIONER: That is why I thought the
Tariff Board must have made a finding.

MR. McRUER: The Canadian industry represented
to the board certain costs of production which they
were submitting as their costs of production, but as
a matter of fact they were not their costs of pro-
duction.

THE COMMISSIONER: Was that accepted?

MR. McRUER: They were accepted as costs of
production though as a matter of fact they were not,
and I emphasize that point later on. They cannot be
their costs of production, because they have not got
them.

THE COMMISSIONER: Are you sure that the Board
accepted them.

MR. McRUER: I deal with that question speci-
fically; but that is not all; the Canadians criticiz-
ed the Britishers on the ground that the costs which
the Britishers put in were not real costs.

MR. KELLOCK: No; they criticized the British-
ers on account of their method, which did not
arrive at the British cost of production.

THE COMMISSIONER: I should like to see what
the Tariff Board did in regard to this matter. Is

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as to each other's cost of production.

MR. McLEOD: No, that is not correct.

MR. McLEOD: They had a right before the

Tariff Board at one time.

THE COMMISSIONER: That is what I thought the

Tariff Board must have made a finding.

MR. McLEOD: The Canadian industry represented

to the Board certain costs of production which they

were submitting as their costs of production, but as

the Board found that the costs of production

were lower.

THE COMMISSIONER: How then accepted?

MR. McLEOD: They were accepted as costs of

production though as a matter of fact they were not.

and I emphasize that point later on. They cannot be

their costs of production, because they have not got

THE COMMISSIONER: Are you sure that the Board

accepted them.

MR. McLEOD: I deal with that question again.

Finally; but that is not all; the Canadians criticized

of the Britishers on the ground that the costs which

the Britishers put in were not real costs.

MR. McLEOD: No; they criticized the British-

ers on account of their method, which did not

arrive at the British cost of production.

THE COMMISSIONER: I would like to see the

the Tariff Board and to see how the Tariff Board

it a secret document?

MR. McRUER: There are two or three documents.

THE COMMISSIONER: I should like to know how
5 they disposed of the difficulty.

MR. KELLOCK: They made a definite finding that,
so far as certain Canadian costs were concerned, they
were 60 per cent higher than the British.

MR. McRUER: But those were the costs which the
10 industry submitted, and they were not in fact their
costs of production.

MR. KELLOCK: I cannot agree with my learned
friend in that regard; the evidence is that they were.

MR. McRUER: I beg your pardon. The evidence
15 is as clear as it can be that they were submitted as
their costs of production and they are not, because
they cannot be their costs of production, for the
reason that they cannot produce those costs.

THE COMMISSIONER: Perhaps by tomorrow morning
20 you will be able to get some information on that
point.

MR. McRUER: If my learned friend suggests
that this industry can produce these costs of pro-
duction I want him to say so, because they have not
25 produced them to this Commission; in fact, they
have said that they could not. If they told us one
thing and they are able to do something else, we
want to know about it.

MR. KELLOCK: That is not the position at all.
30

THE EVIDENCE

There are two or three documents.

THE EVIDENCE: I should like to know how

they disposed of the difficulty.

MR. BRADY: They made a detailed finding that

as far as certain Canadian costs were concerned, they

were 60 per cent higher than the British.

MR. BRADY: But those were the costs which the

industry submitted, and they were not in fact their

costs of production.

MR. BRADY: I cannot agree with my learned

friend in that regard; the evidence is that they were.

MR. BRADY: I get your point. The evidence

is as clear as it can be that they were admitted as

their costs of production and they are not, because

they cannot be their costs of production, for the

reason that they cannot produce those costs.

THE EVIDENCE: Perhaps by tomorrow morning

you will be able to get some information on that

point this industry can produce these costs of pro-

duction I want him to say so, because they have not

produced them to this conclusion; in fact, they

have said that they could not. If they will be one

thing and they are able to do something else, we

want to know about it.

MR. BRADY: That is not the conclusion of the

MR. HEWARD: Mr. McRuer is relating the standard cost to actual cost of production. We have given actual cost of production by tests.

MR. McRUER: Tests of one mill.

MR. HEWARD: Yes.

MR. KILLOCK: My friend recalls only the evidence of his own witness, Mr. Howson; but if you are going to talk about a particular fabric you cannot say what every item is that enters into a yard of cloth. There is a point where you must estimate it. If you are talking about the present or the future you have to estimate on the basis of the past. If you are considering the question on the basis of the past you can get the actual cost or the whole line; you get the actual cost up to a point for the different fabrics. But there is a point where you have to estimate because you do not know how much oil for instance went into a particular yard of cloth.

MR. McRUER: It is far broader than that. At page 251 I make special reference to the charges for depreciation, repairs and betterments, and this has some importance in relation to the question of cost of production. For instance, to take one item, how much are you charging for income tax in dealing with costs of production.

THE COMMISSIONER: Mr. Gordon, on the last day we sat, stated that income tax was charged. Can I take that to be the rule in the industry?

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MR. HARRIS: Mr. McHugh is relating the standard cost to actual cost of production. He has given actual cost of production by tests.

MR. McHUGH: Tests of one mill.

MR. HARRIS: Yes.

MR. HARRIS: My friend recalls only the evidence on his own witness, Mr. Henson; but if you are going to talk about a particular fabric you cannot say what every item is that enters into a yard of cloth. There is a point where you must estimate it. If you are talking about the present or the future you have no estimate on the basis of the past. If you are considering the question on the basis of the past you can get the actual cost or the whole line; you get the actual cost up to a point for the different fabrics. But there is a point where you have to estimate because you do not know how much of the instance went into a particular yard of cloth.

MR. McHUGH: It is far broader than that. At page 251 I make special reference to the charges for depreciation, repairs and betterments, and this has some importance in relation to the question of cost of production. For instance, to take one item, how much are you charging for income tax in dealing with costs of production.

MR. HARRIS: Yes, that is the case.

MR. McHUGH: I stated that income tax was charged. Can I take that to be the rule in the industry?

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MR. HEWARD: We showed the cost both with and without income tax.

5 THE COMMISSIONER: Mr. Gordon said that ~~the~~ in fixing prices you charged income tax to the consumer. That is to say, you estimate in your price a figure that will cover income tax.

MR. HEWARD: We show cost with income tax, bond interest -

10 THE COMMISSIONER: I am not talking about what you show as cost. The statement amounted to this, that the Textile Company unloads its income tax on the consumer.

15 MR. HEWARD: That was not mentioned in connection with any particular fabric or the pricing of any fabric. In estimating the earnings of the company as a whole --

THE COMMISSIONER: I am not referring to earnings.

20 MR. McRUE : I will deal with that later in the brief, and I have a specific reference to the evidence to show exactly what Mr. Gordon said. I have already touched on the question of repairs in reference to individual companies. In connection with the Dominion Textile, it will be observed that they make this statement that they had charged for depreciation, and they say that it was more than sufficient to take care of actual wear and tear and to cover capital losses as well. That is an element that goes into costs; and at page 25 11366 it is pointed out that the course followed by Canadian Cottons has been carefully examined.

30

MR. BRYAN: No objection to the fact that it is

without income tax.

THE COMMISSIONER: Mr. Gordon said that this is

fixing upon you charges income tax to the con-
sumer. That is to say, you estimate in your price

a figure that will cover income tax.

MR. BRYAN: We show cost with income tax, but

interest -

THE COMMISSIONER: I am not talking about what

you show as cost. The statement is that the cost
that the textile company makes the income tax on

the consumer.

MR. BRYAN: That was not what was in contact-

tion with any particular fabric on the subject of
any fabric. In estimating the expense of the

company on a whole --

MR. BRYAN: I am not referring to anything

MR. BRYAN: I will deal with that later in the

brief, and I have a specific reference to the evi-

dence to show exactly what Mr. Gordon said. I

have already touched on the question of capital

in connection with the textile industry. It will be con-

tion with the Dominion textile, it will be con-

ceived that they make this statement that they are

charged for depreciation, and the way that it was

more than sufficient to take care of normal wear

and tear and to cover capital losses as well. That

is an element that goes into costs; and it goes

into it is pointed out that the costs followed

in connection with the textile industry.

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5 Rather, what Mr. Dawson says is that it deserves
close examination, and Mr. Howson's evidence confirms
this view. Mr. Howson has prepared a statement in
regard to the Dominion Textile Company, including the
Dominion Cotton Company and the Sherbrooke Cotton
Company Limited, which shows that from 1906 to 1936
the charges to operations and reserves for deprecia-
tion or obsolescent plant, for repairs and better-
ments, and charges ~~for~~ to operations for equipment
10 are taken into account. Let us look at the business
of this company from 1917 on, and we will see a
remarkable increase in charges to operations for
repairs and betterments. I refer to column 4. In
1916 they were \$108,710 and they jumped in 1917 to
15 \$412,456 and they keep right up. The only time they
are down is in 1933, when the figure is \$215,082.
We have a high of \$720,000 in one year and in another
year \$716,000. In the year 1927 the charges to
20 operations for depreciation amount to \$1,614,297
and the charges to operations for equipment amount
to \$250,845. It seems that they start a new column
of charges in that year for equipment. These are all
charged up to operations, from 1927 to 1936.

25 THE COMMISSIONER: What is the meaning of
charges for equipment? Is that new equipment? You
have already repairs and betterments.

MR. HEWARD: That would be spindles, bobbins and
the like.

30 MR. McRUER: One would have thought that charges

...that Mr. Dawson says is that it becomes
close examination, and Mr. Howson's evidence confirms
this view. Mr. Howson has prepared a statement in
regard to the Dominion Lumber Company, including the
Dominion Cotton Company and the Sherbrooke Cotton
Company, and also the Dominion Lumber Company.
...the charges in connection with the operation of the
tion or obsolescent plant, for repairs and better-
ments, and charges for operations for equipment
are taken into account. Let us look at the business
of this company from 1917 on, and we will see a
remarkable increase in charges for operations for
repairs and betterments. I refer to column A. In
1918 they were \$108,710 and they jumped in 1917 to
\$412,456 and they keep right up. The only time they
are down is in 1930, when the figure is \$215,088.
We have a high of \$720,000 in one year and in another
year \$718,000. In the year 1937 the charges to
...and the charges for operations for equipment amount
to \$250,845. It seems that they want a new column
of charges in that year for equipment. These are all
charged up to operations, from 1927 to 1936.
THE CHAIRMAN: What is the meaning of
charges for equipment? Is that new equipment? You
have already repairs and betterments.
MR. HOWARD: That would be spindles, bobbins and
...
MR. BURN: One would have thought that charges

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for repairs and betterments would have been down that year when they set up a new classification with charges for equipment.

5 THE COMMISSIONER: Where did they carry the charges for equipment before that year?

MR. McRUER: We do not know.

THE COMMISSIONER: These things are used all the time.

10 MR. McRUER: They must have been used since 1906, but when it is laid out in that way we can see the great increase in the charges of these items after the Income Tax Act came into effect. The Business Profit Tax Act came into effect in 1916 and the Income
15 Tax Act was brought in in 1918. The charge for depreciation then jumps from \$490,000 to \$881,000 in one year, and in the same year they charge for obsolescent plant \$446,000 - that is in 1918 - and \$438,000 in 1919. Take the year 1921. The charges
20 for depreciation amount to \$647,000 and for repairs and betterments \$720,000; then there is a jump in that one year in connection with depreciation charges to \$1,405,801. In other words we find charged there over two million dollars to depreciation and repairs
25 and betterments. When therefore Mr. Howson said in his evidence that he could not reconcile in any way the charges for depreciation with the requirements of the plant, he indicated, it seems to me, that it had to be determined by the quantity of profit made; and
30 that seems to be borne out. We get to 1930 and we

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for repairs and betterments would have been done that
year when they set up a new classification with
charges for equipment.

THE COMMISSIONER: Where did it carry the

charges for equipment before that year?

MR. MORRIS: We do not know.

THE COMMISSIONER: These things are used all the

time.

MR. MORRIS: They must have been used since 1906,

but when it is laid out in that way we can see the
great increase in the charges of these items after
the Income Tax Act came into effect. The Business

Profit Tax Act came into effect in 1916 and the Income

Tax Act was brought in in 1918. The charge for

depreciation then jumps from \$400,000 to \$801,000 in

one year, and in the same year they charge for

obsolescent plant \$440,000 - that is in 1918 - and

\$438,000 in 1919. Take the year 1921. The charges

for depreciation amount to \$844,000 and for repairs

and betterments \$720,000; then there is a jump in

that one year in connection with depreciation charges

to \$1,405,801. In other words we find charged there

over two million dollars for depreciation and repairs

and betterments. Now, Mr. Commissioner, what is

his evidence that he could not reconcile in any way

the charges for depreciation with the requirements of

the plant, he indicated, it seems to me, that it had

to be determined by the quantity of profit made; and

that seems to be the basis of it. It was in 1918 and

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find that there were charges for depreciation
amounting to \$1,272,036 and for repairs and better-
ment \$554,051 and for equipment \$236,164. And then
we come to the next year and find that they charge
to depreciation only half the amount that was charged
the year before.

THE COMMISSIONER: You have referred to income
tax. I assume that that particular office has
access to all these things.

MR. HEWARD: I may point out, my lord, that up
to a certain period it did not matter what you
wrote off for depreciation. After the income tax
came into force it did not matter what you wrote off,
because they would allow you to fix a rate for
depreciation. Now they allow you only what you
write off and only up to a fixed rate.

THE COMMISSIONER: But leaving the income tax
aside, Mr. McRuer still has the right to argue that
these charges are excessive.

MR. McRUER: It is out of these that they have
created - and I was referring to this yesterday -
a secret reserve in profit in plant and equipment.

THE COMMISSIONER: Even if it is not secret so
far as the Income Tax officials are concerned, it is
secret for other purposes.

MR. McRUER: And it must be remembered that it
is difficult for the Income Tax officials with res-
pect to every business, to make the sort of analysis

find that there were charges for depreciation amounting to \$1,875,000 and for repairs and betterment \$584,001 and for equipment \$283,184. And then we come to the next year and find that they charge to depreciation only half the amount that was charged in the year before.

You have referred to income tax. I assume that that particular office has access to all those figures.

to a certain period it did not matter what you wrote off for depreciation. After the income tax came into force it did not matter what you wrote off because they would allow you to fix a rate for depreciation. Now they allow you only what you write off only up to a fixed rate.

Mr. Macdonald: But leaving the 1000 tax aside, Mr. Macdonald still has the right to argue that these charges are excessive.

Mr. Macdonald: It is out of these that they have created - and I was referring to this yesterday - a reserve reserve in profit in their own equipment. And Mr. Macdonald: Even if it is not correct so far as the income tax officials are concerned, it is correct for other purposes.

Mr. Macdonald: And it must be remembered that it is extremely hard for the income tax officials to make the sort of analysis that every business, to make the sort of analysis

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that Mr. Howson made in connection with this business. If they undertook such a task, they would need a tremendous staff of auditors going all over the country. Now for these repairs represent capital expenditures we are not in a position to say, but we do say this: you have made these profits over a period of years and the consumer has provided you with the sum of \$19,000,000 for deprecation and over \$12,000,000 for repairs and betterment and the keeping up of your plant, and \$2,067,600 for equipment, in addition to which there is the sum of \$3,640,960 for obsolescence and depreciated plant.

---The Commission adjourned at 5 P.M. to
resume Thursday, February 11, 1937. ---

that Mr. Howson made in connection with this matter
one. If they were to make such a task, they would be
a tremendous staff of auditors would all over the
country. Now for the other part of the matter
expenses we are not in a position to say, but
we do say this: you have made these profits over a
period of years and the company has provided you
with the sum of \$10,000,000 for decoration and
over \$10,000,000 for repairs and betterment and the
keeping up of your plant, and \$10,000,000 for equip-
ment, in addition to which there is the sum of
\$10,000,000 for the maintenance and improvement of plant.

--The corporation returned to the U.S. to
receive dividends, interest, etc.

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ROYAL COMMISSION ON THE TEXTILE INDUSTRY

HON. MR. JUSTICE W.F.A. TURGEON,

Commissioner,

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A.S. Whiteley, Secretary,

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ONE HUNDRED AND EIGHTH DAY

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(February 11th, 1937)

A R G U M E N T

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Robert Brydie,
Official Reporter.

[Faint header text]

MEMORANDUM FOR THE RECORD

RE: [Faint subject line]

[Faint text]

[Faint text]

THE FIRST OF JANUARY

(RECAPITULATED)

[Faint text]

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ROYAL COMMISSION ON THE TEXTILE INDUSTRY

HON. MR. JUSTICE W.F.A. TURGEON,

Commissioner,

A.S. Whiteley, Secretary,

A p p e a r a n c e s :

J.C. McRuer, K.C. and)

E. BEAUREGARD, K.C.)

Commission Counsel,

R.L. Kellock, K.C.

For Primary Textiles
Institute.

C.G. Heward, K.C.)

Aime Geoffrion, K.C.)

For Dominion Textile
Company.

C.T. Ballantyne,)

S.G. Dixon, K.C.

For Courtaulds Limited.

L.A. Forsyth, K.C.

For Canadian Celanese Ltd.
and Canadian Silk Products
Limited.

A.S. Bruneau, K.C.

For Canadian Cottons,

Thos. Tremblay, K.C.)

and)

For M.E. Binz, Co. Ltd.

J.M. Hebert,)

Francois Lajoie, K.C.

For Wabasso Cotton Co.

-- 000 --

WILEY
Blackwell Science

For Primary Textiles
Cotton

W. A. Kelley, Inc.
J. C. Morris, K. O. and
S. J. Morris, K. O.

Cumulative Dividend

Ottawa, Ontario,
Thursday, February 11/37

-- The Commission resumed at 10.30 a.m.

5 ARGUMENT BY MR. McRUER K.C. (Resumed):

I had just finished dealing with the statement in regard to charges for repairs, depreciation and equipment of the Dominion Textile Company, at page 252.

10 Now with reference to the Montreal Cotton Company, we have in connection with this company certain charges for depreciation made prior to 1901, and these were carried on at rather uniform rates. Your lordship will notice in column 2, for instance, from 1889 to 1903 there were \$65,000, in 1904 down to 1917 \$115,000. So that
15 they evidently, with the exception of the year 1914, when no charge was made, maintained a uniform charge for depreciation for thirteen years. Then there are charges in addition to that to operations for repairs and
20 betterments and charges for supplies including equipment. If your lordship just drew a line across the paper in the year 1917 and saw the remarkable change that took place between the year 1917 and 1918 in these charges, and continuing over right down to 1935, it might be
25 instructive. For instance the charge for depreciation jumps from \$115,000 to \$122,500. There is no criticism in regard to that, because it is a small change and probably some additional equipment had been added. But
30 when we come to the charges for repairs, this year, when the income tax comes into effect there is a jump from

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Ottawa, Ontario,
Thursday, February 11/2

The Commission resumed at 10.30 a.m.

ARGUMENT BY MR. McRURR K.C. (Resumed):

I had just finished dealing with the statement in
regard to charges for repairs, depreciation and
of the Dominion Textile Company, at page 253.
Now with reference to the Montreal Cotton Company,
we have in connection with this company certain charges
for depreciation made prior to 1901, and these were
carried on at rather uniform rates. Your Lordship will
notice in column 2, for instance, from 1899 to 1903 there
were \$65,000, in 1904 down to 1917 \$115,000. So that
they evidently, with the exception of the year 1916, when
no change was made, maintained a uniform charge for de-
preciation for thirteen years. Then there are charges
in addition to that for operations for repairs and
betterments and charges for supplies including equipment.
If your Lordship just draw a line across the paper in
the year 1917 and saw the remarkable change that took
place between the year 1917 and 1918 in these charges,
and continuing over right down to 1925, it might be
illustrative. For instance the charge for depreciation
jumps from \$115,000 to \$122,500. There is no criticism
in regard to that, because it is a very obvious fact
that some additional equipment had been added. But

5 \$95,000 to \$348,000, and the charges for equipment
have an increase there from \$38,000 to \$54,000, which
is increased again to \$91,000 the next year and
\$118,000, one can hardly understand how these are, so
to speak, normal charges against property, that there
should be such a remarkable change all across the
columns at this particular time. Then we find these
charges for repairs and betterments continued at these
high figures until we get down to 1931. Between 1931
10 and 1932 it does not seem to cost so much to keep it
up in repair there, but this does not include in those
years 1932, 1933, 1934, 1935, those very heavy charges
that were made to wages account for these repairs. So
15 that in those years your lordship will recollect, there
were about \$250,000 charges -- in one year -- to wages
account for repairs. But we have the equipment supply
jumping in one year from \$60,000 to \$246,000 the
next year, getting up as large in 1934 as \$341,000,
20 with a charge for depreciation in that year of
\$322,000. So that we have in all the totals that
are shown. There is a summary of them on page 254.
From 1891 to 1914, charge for depreciation \$1,770,000,
in 1915 to 1935 \$3,114,000. But when you get to the
25 repairs, \$3,740,000 in that same period, and for
equipment \$2,684,000.

The record of Canadian Cottons Limited is shown
at page 255. There were evidence that there were
adjustments made in their repair account on account of
30 being disallowed by the income tax department. The
total charges to operation for depreciation from

1913 to 1936 were \$13,000,000, and the charges to repairs \$9,401,000. Again, an examination of these charges demonstrates the soundness of what Mr. Howson said that there does not appear to be any relation between the charges for depreciation and the depreciation the plant ought to have, but rather it is related to profits. Taking the depression years we see how in 1934, 1935 and 1936 this company has made very heavy charges for depreciation and repairs and betterments.

THE COMMISSIONER: Mr. McRuer, in the column "charges to operation for repairs and betterments", those figures in red there, what just does that mean?

MR. McRUER: They are items that were disallowed by the income tax department, for repairs.

THE COMMISSIONER: I see now.

MR. McRUER: But were allowed as depreciation. They charged them against the depreciation account. That shows to a certain extent what a rule of thumb method this depreciation amounts to. It may be that the sum allowed for depreciation, if taken alone, would not be more than the plant would ordinarily require for depreciation, but where you have huge charges against repair account at the same time it may make that sum --

THE COMMISSIONER: Well, in those years these amounts were transferred to depreciation without interfering with the amount already charged to depreciation.

1913 to 1933 were \$12,000,000, and the charges to

charges demonstrated the soundness of what Mr. Hanson

said that there does not appear to be any relation

between the charges for depreciation and the deprecia-

tion the plant ought to have, but rather it is re-

lated to profits. Taking the depreciation years we are

now in 1931, 1932 and 1933 this company has made very

heavy charges for depreciation and repairs and better-

THE COMMISSIONER: Mr. McArthur, in the column

"charges to operation for repairs and betterment"

those figures in red there, what does that mean?

MR. McARTHUR: They are items that were dis-

allowed by the income tax department, for repairs.

THE COMMISSIONER: I see now.

MR. McARTHUR: But were allowed as depreciation.

They charged them against the depreciation account.

That shows to a certain extent what a pile of things

without this depreciation amounts to. It may be that

the sum allowed for depreciation, if taken alone, would

not be more than the plant would ordinarily require

for depreciation, but where you have huge charges

against repair account at the same time it may mean that

well, in those years the

to depreciation without in-

with the company's

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MR. McRUER: Yes, my lord.

THE COMMISSIONER: In 1924 there is already a charge of \$550,000; you add to that \$877,000 and merely call it depreciation.

5 MR. McRUER: Yes, my lord. There have been charged in 1921 to repairs \$1,318,000, for instance. One cannot conceivably understand how a charge of that sort is an ordinary charge for repairs and put through the company's books as such. After all there is
10 a great law of averages. But 1915 indicates they required \$93,000 for repairs, and 1921 \$1,318,000, over twelve times as much.

MR. KILLOCK: I thought they had some sort
15 of a flood that year.

MR. McRUER: If that is a fact, then it was a very improper charge against operation, that you charge up against operation and costs the replacement for the flood. But there were other things
20 done in that year, as we shall see later on. I have more or less covered what I have said already in the notes that appear on pages 257, 258 and 259.

Now in regard to the cotton companies. I have summarized the charges to operations for depreciation
25 and for repairs and betterments for the ten year period reviewed. That includes the five years pre depression and five years depression period. We have the Dominion Textile Company with the repairs and betterments incomplete, showing depreciation
30 \$10,471,000, and repairs and betterments \$6,437,000.

1934

THE COMPANY'S ACCOUNTS

THE COMPANY'S ACCOUNTS: In 1934 there is already a charge of \$350,000; you add to that \$87,000 and merely call it depreciation.

MR. MURPHY: Yes, my lord. There have been

charged in 1931 to repairs \$1,318,000, for instance,

One cannot conceivably understand how a charge of this sort is an ordinary charge for repairs and put through the company's books as such. After all there is

a great law of averages. But 1935 indicates they repaired \$25,000 for repairs, and 1931 \$1,318,000, over twelve times as much.

MR. KILLICK: I thought they had some sort

of a flood that year.

MR. MURPHY: If that is a fact, then it was a

very improper charge against operations, that you charge up against operations and costs the company's money for the flood. But there were other things

gone in that year, as we shall see later on. I have more or less covered what I have said already in the notes that appear on pages 257, 258 and 259.

Now in regard to the cotton companies. I have summarized the charges to operations for depreciation and for repairs and betterments for the ten year

period reviewed. That includes the five years pre-depression and five years post-depression period. We have

the following figures: Cotton companies, pre-depression and post-depression, and repairs and betterments \$8,487,000.

Canadian Cottons, with depreciation \$6,700,000 and repairs and betterments \$3,650,000. Montreal Cottons with their repair story incomplete on account of the fact that these charges to wages for repairs, which were very heavy, amounting to over \$150,000 in different years, are not shown in this table. The depreciation amounted to \$1,542,000, repairs and betterments \$2,908,000. Wabasso Cotton Company, depreciation \$2,543,000, repairs and betterments \$646,000, and so on down. The artificial silk companies: Canadian Celanese, for depreciation \$1,725,000, repairs and betterments \$1,175,000. Courtaulds, depreciation \$4,553,000, repairs and depreciation \$1,813,000. The silk companies are shown on page 261. The woollen companies are dealt with on the same page. Your lordship will see on page 262 in regard to Penmans, charges for repairs and betterments amount to more than charges for depreciation.

Just before we leave that branch of the brief entirely, I have a graph that is really prepared by Mr. Whiteley, that gives a sort of comparative story of the relative value of the earnings and the relative value of the wages paid. Something was said, for instance, with regard to Penmans, the rise in real wages with that company, but Mr. Whiteley has adjusted that story that was told there to its proper proportions. Mr. Beauregard will deal with that. But this graph is intended to show what the earnings in return on investment show in respect to the cost of living.

Canadian Cottons, with depreciation \$8,700,000 and
repairs and betterments \$8,000,000. Montreal Cottons
with their repair story, incomplete on account of the
fact that these charges to wages for repairs, which
were very heavy, amounted to over \$80,000 in 1917-
18. The 1918-19 years, are not shown in this table. The de-
preciation amounted to \$1,545,000, repairs and better-
ments \$1,545,000, repairs and betterments \$45,000, and
so on down. The artificial silk companies: Canadian
Silk, for depreciation \$1,725,000, repairs and
betterments \$1,175,000. Continental, depreciation
\$1,500,000, repairs and betterments \$1,500,000. The
silk companies are shown on page 201. The woolen
companies are shown on the next page. The
relationship will see on page 202 in regard to Penna-
charges for repairs and betterments amount to more
than charges for depreciation.
And before we leave that branch of the subject
entirely, I have to say that in 1917, 1918 and 1919
Mr. Whiteley, that gives a sort of comparative story
of the relative value of the companies and the relative
value of the repair story. In 1917, 1918 and 1919
insurance, with regard to Penna, the same in 1917
wages with that company, but Mr. Whiteley has adjusted
that figure, and we have to take into account the
fact that in 1917, 1918 and 1919, the wages were
the same, and in 1917, 1918 and 1919, the wages were
the same.

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5 These people say, "Well, the cost of living goes down,
therefore the value of the wage dollar goes up, and
the wages have really been increased". They forget
that that increases the return on their investment,
and that the consumer always is the one that pays; so
on this graph, starting out in 1914, with the dollar
value of dividends attributable to the original invest-
ment in the common stock of the Dominion Textile Com-
pany, we see how it has increased in comparison with
10 how the real wages have increased, and never was that
return on the original investment of \$500,000 greater
through the whole period than it is to-day.

15 THE COMMISSIONER: You had better put this in
one of the pages of your brief, so that we shall know
where to find it. Probably at the end of the part
dealing with the Dominion Textile Company.

20 MR. McRUER: I think it should go innat the end
of the part dealing with the Dominion Textile Company,
my lord.

THE COMMISSIONER: Make it 183A.

25 MR. McRUER: This graph is very useful, when
the argument is advanced if there has been any rise
it is a very modest one, to see the list, in real wages,
to show what the real value of the return is that these
original investors got on their money.

30 This brings me, my lord, to an entirely different
branch of my argument, which deals with the organization
of the textile industry, and what I have to say applies
to the industry as a whole. Your lordship will recollect

these people say, "well, the cost of living goes down,
therefore the value of the wage will go up, and
the wages have really been increased". They forget
that that increases the return on their investment,
and that the consumer always is the one that pays, so
on this graph, starting out in 1914, with the dollar
value of dividends attributable to the original invest-
ment in the common stock of the Dominion Textile Com-
pany, we see how it has increased in comparison with
how the real wages have increased, and never has that
return on the original investment of \$100,000 greater
through the whole period than it is to-day.
THE GOVERNMENT: You had better put this in
the report of your committee, and you will find it
very interesting. I think it should go into the report
dealing with the Dominion Textile Company.
MR. ROBERT: I think it should go into the report
of the part dealing with the Dominion Textile Company.
THE GOVERNMENT: I think it should go into the report
dealing with the Dominion Textile Company.
MR. ROBERT: This graph is very useful, when
it is a very modest one, to see the list, in real wages,
to show what the real value of the return is that the
original investors got on their money.

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Mr. Macdonnell of the Canadian Manufacturers Association gave evidence that practically all the manufacturers of textiles were members of the Canadian Manufacturers Association, and so I start off with this one general organization, which is an organization of manufacturers of the dominion for their purposes, which are referred to, and the textile mills have the advantage of membership in that organization of employers. The Canadian Manufacturers Association is incorporated by act of parliament, and I was rather amazed to find the powers that were given to that association by statute. The objects of the association are set out in the statute that incorporates them, and in their constitution, which is incorporated in the act. "The object of the association shall be to promote Canadian industries and to further the interests of Canadian manufacturers and exporters and to render such services and assistance to the members of the association and to manufacturers and exporters generally as the association shall deem advisable from time to time." That of course is a perfectly legitimate object of any association, but I shall have something to say a bit later on the inconsistency of the manufacturers who take such effective steps to organize themselves and yet deny to workmen any right of organization whatever. From that point of view I want to consider the power of the organizations that the industry has.. This association has given to it by act of parliament certain powers that I have set out at page 263 and page 264. "The association may provide

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corporates them, and in their constitution, which is in-
corporated in the act. "The object of the association
shall be to promote Canadian industries and to further
the interests of Canadian manufacturers and exporters
and to render such services and assistance to the members
of the association and to render services and assistance
generally as the association shall deem advisable from
time to time." That of course is a perfectly legi-
timate object of any association, but I shall have some-
thing to say a bit later on the inconsistency of the
manufacturers who take such effective steps to organize
themselves and yet deny to workers any right of or-
ganization whatever. From that point of view I want
to mention the power of the organization that the in-
dustrial has. This association has given to it by act
of parliament certain powers that I have set out at
page 100 and page 100. "The association may provide

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by by-law for the appointment of arbitrators members
of the association to hear and decide controversies, dis-
putes or misunderstandings relating to any commercial
matter which may arise between the members of the asso-
5 ciation or any person whatsoever claiming by, through
or under them which may be voluntarily submitted for
arbitration by the parties in dispute". The next two
sub-paragraphs deal with this matter of how it is done.
Then article 8 is quite an amazing article given to
10 any association by act of parliament. "The asso-
ciation may by by-law or resolution provide for the
appointment of committees of enquiry to enquire into
any matter affecting the manufacturing, importing or
exporting interests of Canada, and such committees
15 may examine upon oath, which oath any member of the
sub-committee is hereby empowered to administer, any
party who appears before them, and the evidence so
taken shall be used to assist the association in ar-
riving at a decision with reference to the matter under
20 consideration."

THE COMMISSIONER: "The evidence.... may be
used".

MR. McRUER: "May be used", yes. So it is
25 difficult to conceive of any matter in the whole
economic make-up of Canada that does not affect the
manufacturing, importing or exporting interests of
Canada, and this association has given to it by act of
parliament power to appoint a committee to examine
30 witnesses under oath in these matters.

of the association on to hear and decide controversies,
matter which may arise between the members of the association or any person whatsoever claiming by, through or under them which may be voluntarily submitted for arbitration by the parties in dispute. The next two paragraphs deal with this matter of how it is done. Then article 8 is quite an amazing article given to any association by act of parliament. The association may by by-law or resolution provide for the appointment of committees of enquiry to enquire into any matter affecting the manufacturing, importing or exporting interests of Canada, and such committees may examine upon oath, which oath any member of the association is hereby empowered to administer, any party who appears before them, and the evidence so taken shall be used to assist the association in arriving at a decision with reference to the matter under consideration.

THE COMMISSIONER: "The evidence.... may be used".

MR. HOBBS: "May be used", yes. So it is difficult to conceive of any matter in the whole of Canada, manufacturing, importing or exporting interests of Canada, and this association has given to it by act of parliament power to appoint a committee to examine witnesses under oath in those matters.

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MR. KELLOCK: If the witnesses desire to appear.
There is nothing compellable about it.

MR. McRUER: They have power to administer oaths
and examine them.

MR. KELLOCK: But not to bring them.

MR. HEWARD: You have to catch your witness
first.

MR. McRUER: I do not know why in the world
the association wants that power if it does not intend
to use it. I do not know whether it has ever used it.

MR. KELLOCK: I do not think so.

MR. McRUER: I have just pointed out what are
the powers which the association has asked parliament
for and got. I am going to deal a bit later with Mr.
Macdonnell's attitude -- not his attitude, but the
attitude of the association as he has stated it to be,
in respect to giving somewhat similar powers to work-
men. Just suppose for a moment that a union of work-
men came to parliament and asked for powers to set up
committees to examine witnesses under oath in regard
to matters affecting the manufacturing or exporting
interests of Canada, I am afraid it would not get the
support of at least the manufacturers association.

The association then is divided into divisions
and branches and trade sections. There is the
Ontario division, the Quebec division, the prairie
division, the maritime division, the British Columbia
division. It has got quite a scale of fees that are
payable by members, so that they evidently are able to

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MR. KILLICK: If the witnesses desire to report.

There is nothing compelling about it.

MR. KILLICK: They have power to administer oath.

100-10-10-10

MR. KILLICK: But not to bind them.

MR. KILLICK: You have to catch your witness.

100-10-10-10

MR. KILLICK: I do not know why in the world

the association wants that power if it does not intend

to use it. I do not know whether it has ever used it.

MR. KILLICK: I do not think so.

MR. KILLICK: I have just pointed out what are

the powers of the association and what are the

for and got. I am going to feel a bit better with you.

Association's attitude -- not his attitude, but the

attitude of the association as he has stated it to be

in respect to giving somewhat similar powers to work-

men. Just suppose for a moment that a union of work-

men came to parliament and asked for powers to set up

committees to examine witnesses under oath in regard

to matters affecting the manufacturing or exporting

interests of Canada. I am afraid it would not get the

support of at least the Manufacturers' Association.

The association then is divided into divisions

and branches and trade sections. There is the

association, the division, the branch, the section.

association, the division, the branch, the section.

division. It has got various scale of fees that are

payable by members, so that they evidently are able to

raise a substantial fund to assist them in carrying out their affairs. The constitution is filed, and we note in the constitution that the association has a tariff committee, and I have criticized it on page 266 the statement of the tariff committee in the last annual report as being rather a bit of propaganda that they are putting out that did not too fairly state the case. On page 267 Mr. Macdonnell gave some evidence as to what the objects of the association were, and I have one answer noted where Mr. Macdonnell said, "Well, as Insay, there are branches in the big cities and even in the smaller places like Brantford there is a branch there. Brantford branch might and I have no doubt has, although it is not within my recollection at the moment, taken some action on matters of municipal politics, that is to say, if there is some question which the manufacturers living in that particular area consider has a bearing upon their interests and felt that they as a group of manufacturers should have something to say about it, they may proceed to do so". So far reaching is the effect of this association that they can even project themselves into municipal politics where they think that there is some question arising that affects the interests of the manufacturers. Again, that may be perfectly legitimate, but on the other hand it is rather inconsistent for an association that has such powers and uses such power to deny to workmen a similar power, at any rate decline to recognize any similar right of

REPORT

raise a substantial fund to assist them in carrying out their affairs. The constitution is filed, and we note in the constitution that the association has a tariff committee, and I have advised it on page 266 the statement of the tariff committee in the last annual report as being rather a bit of propaganda that they are putting out that did not too fairly state the case. On page 267 Mr. Woodsonnell gave some evidence as to what the objects of the association were, and I have one answer noted where Mr. Woodsonnell said, "well, as I say, there are branches in the big cities and even in the smaller places like Brentford there is a branch there. Brentford branch might and I have no doubt has, although it is not within my recollection at the moment, taken some action on matters of municipal politics, that is to say, if there is some question which the members are living in that particular area would be a hearing upon their interests and felt that they are a group of members who should have something to say about it, they may proceed to do so." So far reaching in the effect of this association that they can even project themselves into municipal politics where they think that there is some question relative to the interests of the community. I am sure that they will be very legitimate, but on the other hand it is rather unnecessary for an association that has such power, uses such power to deny to workmen a similar power, as they have declined to franchise the power of

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association among workmen. I make one reference, on
page 268, to the association's attitude with regard
to the Industrial Standards Act of the province of
Ontario, for instance. The association could not come
to this commission with any policy in regard to labour
at all, except a policy that was entirely negative.
But they came to the commission and said, "We are
against the Industrial Standards Act". But when Mr.
Macdonnell was asked whether the association had any
duty towards organized labour and collective bargaining,
he said that it did not come within the scope of the
association's activities. But it does come within
the scope of the association's activities to oppose,
for instance, the Industrial Standards Act, without
coming forward with any alternative proposal to assist
the workmen.

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The whole policy so far seems to be a policy of "we buy our labour in the lowest competitive market with no restriction on competition, but we claim the right to associate ourselves together in any way we like with restrictions on competition". What I am saying is not in regard to the Canadian Manufacturers Association in regard to restrictions on competition. I say that in regard to the other associations fostered by Mr. Hallam of which certain members of the Canadian Manufacturers Association are members, and that is all.

Now, in regard to protection they have a definite policy. Mr. Macdonnell says:

"It is true generally that the Association believes in protection, that is, reasonable protection, as it calls it, for the purpose of encouraging and maintaining Canadian industry."

So that they have a definite policy in regard to protection, and we know that the reason usually advanced for protection is to assist the working man, but the Association that has a definite policy in regard to protection has no definite policy, or no policy of any kind, to pass it on to the working man. They do not come to the Government, or any other body, and say "we have got a plan that we are going to show you is a fair plan under which the working man will get the benefits of the protective policy." When they don't do that then it must be perfectly clear that when the claim for protection is put forward as being in the interests of the working man that it is put forward with insincerity, because if the manufacturers as a

whole really desired protection for the benefit of the working man they would have a policy, a well organized policy, to see that he got the benefit of it. I cannot see any answer to such a proposition. They have a definite policy in regard to the collection of the subsidy from the consumer but no policy in regard to the distribution of the subsidy among the workers. Now then, that is all I have to say about the Canadian Manufacturers Association.

What I have to say now is in regard to the organization within the textile industry as an industry, and we find that it certainly is not lacking in organization. First we start off with the Primary Textiles Institute which, as I have said in my brief, is a sort of confederation. It is a federation of other organizations so that these other organizations may come together and use their weight, the weight of their consolidated membership, for such purposes as the central organization might deem in their mutual interest. At page 270 I set out the objects of the Primary Textiles Institute.

Then, we have the Canadian Woollen and Knit Goods Manufacturers Association, and I have set out in detail their objects, and there seems to be very little evidence of the promotion of the objects set forth in paragraphs B, D, C, F and G, but there is evidence of the promotion of protective tariffs and price fixing arrangements in this association.

Then, we have the Silk Association, and its constitution and set up are set forth on page 274

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whole really desired protection for the benefit of
the working men they would have a policy, a well
organized policy, to see that he got the benefit of
it. I cannot see any answer to such a proposition.
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very old organization. It is a sort of a
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organization might seem in their mutual interest.
At page 270 I set out the objects of the Primary
Textiles Institute.
Then, we have the Canadian Woolen and Knit Goods
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their objects, and there seems to be very little
evidence of the promotion of the objects set forth
in the promotion of protective tariffs and price fixing
arrangements in this association.
Then, we have the Silk Association, and the
Association and set up are set forth in the

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and page 275. I set out the names of the parties that are their officers.

Then, there is the Cotton Institute of Canada, and there is one specific phrase in their constitution that I wish to draw your lordship's attention to, and that is one of the objects is "the representation of the industry as a unit in dealing with matters affecting the industry".

THE COMMISSIONER: What page is that?

MR. McRUER: That is page 277, my lord. It is underlined. That sounds like collective bargaining but I suspect that the type of collective bargaining is bargaining about protective tariffs. Now, at page 278 I mention the fact that --

"The constitution of the Canadian Woollen and Knit Goods Manufacturers Association, in two clauses, gives clear indication that a definite purpose of the organization is to influence the course of legislation in Canada:

"(a) The promotion of legislation calculated to encourage the manufacture of all classes of woollen and knit goods within the Dominion".

That is one of their objects.

THE COMMISSIONER: What page?

MR. McRUER: 278, my lord, the middle of the page.

"(b) The prevention of legislation adversely affecting the interests of the industry".

One, I take it, would be the promotion of tariffs and the other the prevention of reduction of tariffs. Mr. Hallam was asked in reference to clause A --

and page 275. I set out the names of the parties
that are the officers.

Then, there is the Cotton Institute of Canada,
and there is one specific phrase in their constitution
that I wish to draw your Lordship's attention to, and
that is one of the objects is "the representation of
the industry as a unit in dealing with matters affecting
the industry."

THE COMMISSIONER: What page is that?
MR. McNEIL: That is page 277, my Lord. It is

in the same line as the other
but I suspect that the type of collective bargaining
is bargaining about protective tariffs. Now, at
page 278 I mention the fact that --

"The constitution of the Canadian Woolen and
Textile Manufacturers' Association, in its preamble,
gives clear indication that a definite purpose of
the organization is to influence the course of
legislation in Canada:

"(a) The promotion of legislation calculated to
encourage the manufacture of all classes of woolen
and knit goods within the Dominion";
That is one of their objects.

MR. McNEIL: 278, my Lord, the middle of the page.
"(b) The prevention of legislation adversely affect-
ing the interests of the industry."

and I think it would be the intention of the
the matter the prevention of legislation of woolen
which are used in reference to clause A --

"Q. I suppose that would be the promotion of high tariffs?

A. If you like to call it high.

Q. That is how it is interpreted, anyhow, by the Association?

A. I would not think the Association would admit there was such a thing as high tariff."

Now, the Association certainly seems to have adopted a certain system of propaganda and Mr. Hallam seems to have been not a bad official when it comes to putting the system into effect, and one of the things that they seem to have been doing was to spread propaganda to prevent industries from coming to Canada and locating here. Now, they ask for tariff on two grounds; one is for the development of Canadian industry and the benefit it will be to the working man, and another is to bring industries into Canada and have them locate here, but then this Association gets busy and sends out propaganda which is designed to frighten industries away. At page 279 I give an extract from what Mr. Hallam termed a "news release". In this he stated --

"Attached is a news item release I propose to send out to United States trade papers if you agree. Such items, as you are aware, are hard to write without making them appear to be propaganda".

It was difficult for Mr. Hallam just to get it in the shape that people would not recognize it at its true worth and say "oh, that is just some propaganda from the Sidk Association in Canada", but he seems to have done fairly well because we will read the news release in a minute.

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"Q. I suppose that would be the promotion of high
tariffs?
A. If you like to call it high
Q. That is how it is interpreted, anyhow, by the
Association?
A. I would not think the
Association would admit there was such a thing as
high tariff."
Now, the Association certainly seems to have adopted
a certain system of propaganda and Mr. Ballin seems to
have been not a bad official when it comes to putting
the system into effect, and one of the things that
they seem to have been doing was to spread propaganda
to prevent industries from coming to Canada and locating
here. Now, they ask for tariff on two grounds; one
for the development of Canadian industry and the other
it will be to the working man, and another is to bring
industries into Canada and have them locate here, but
then this Association gets busy and sends out propaganda
which is designed to frighten industries away. At
page 279 I give an extract from what Mr. Ballin termed
a "news release". In this he stated --
"Attached is a news item release I propose to send
out to United States trade papers if you agree. Both
items, as you are aware, are hard to write without
making them appear to be propaganda."
It was difficult for Mr. Ballin just to get it in the
shape that people would not recognize it at its true
worth and say "oh, that is just some propaganda from
the Stik Association in Canada", but he seems to have
done fairly well because we will read the news release
is a release.

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"You might wire me if it is O.K. I will have to justify it by writing a letter to the mills along the lines indicated".

Now, Mr. Hallem is writing this to Mr. Marx, the Chairman of the Broad Silk Section of the Silk Association. He says it is difficult for me to conceal the fact that this is propaganda and I will have to write out a letter to the mills to justify having sent this propaganda to the United States. Well now, we will see what the news release was. It was on February 25, 1935, not so long ago --

"Warnings of excess production, based on studies of monthly production to deliveries, and stocks, on hand, have been issued by the Silk Association of Canada to the broad silk mills in Canada producing fabrics from silk and rayon".

THE COMMISSIONER: Would you stop there a moment? Was that a fact? Had those warnings been sent out by the Association?

MR. McRUER: There is no evidence of the warnings ever having been sent out.

MR. KELLOCK: I do not agree with that, my lord.

MR. McRUER: Well, we asked Mr. Hallem to produce them. We pressed him on it, and I refer to that, but if they were sent out we see all the value they are because in the letter to Mr. Marx he says "I will have to justify it by writing a letter to the mills along the lines indicated".

THE COMMISSIONER: That is what he meant?

MR. McRUER: That is what he is referring to.

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"You might write me if it is O.K. I will have to justify it by writing a letter to the mills along the lines indicated."

Now, Mr. Hallam is writing this to Mr. Mark, the

he says it is difficult for me to conceal the fact that

this is propaganda and I will have to write out a letter to the mills to justify having sent this propaganda to the United States. Well now, we will see what the news release was. It was on February 23, 1935, not so long ago --

"Warnings of excess production, based on studies of monthly production to Belgium, and stores on hand, have been issued by the Silk Association of Canada to the broad silk mills in Canada producing fabrics from silk and rayon."

THE COMMISSIONER: Could you stop there a moment? Was that a fact? Had those warnings been sent out by the Association?

MR. BRYDIE: There is no evidence by the evidence

ever having been sent out.

MR. KILGORE: I do not agree with that, my lord.

MR. McROBERT: Well, we asked Mr. Hallam to produce

the evidence that it was sent out, and I think we have

if they were sent out we see all the value they are

in the latter part. There is no way it will have

to justify it by writing a letter to the mills along

the lines indicated."

THE COMMISSIONER: That is what he means?

MR. McROBERT: That is what he is referring to.

I will have to justify this warning business by writing a letter along the lines indicated, and he says it is hard to make it appear that it isn't propaganda. The whole thing is a hoax designed for no other purpose than to keep mills away from Canada.

"The Association offices advises the Canadian mills that while in the year 1933 the production fell slightly short of the deliveries in that year, in 1934, the production was greater than the deliveries, and that the stocks on hand in January were substantially in excess of previous years, while advance information concerning February 1935 indicated a substantial drop in deliveries over previous years." This is what the warning is that is said to have gone out to the mills and which Mr. Hallam said he had to send out to justify it.

"The warning in part says:

'Great care must be exercised in production because there is machine capacity in excess of requirements. The Canadian mills have now absorbed all the business which was formerly held by foreign mills that they can reasonably expect to obtain and consequently this source of expansion has come to an end. The 1933 and 1934 figures indicate clearly that the market for production of Canadian mills has become static and that no expansion can take place unless conditions in Canada improve to such an extent that the consumer market improves. An improvement of as much as 20 to 25% in the consumer market, and which is not expected, could be

I will have to justify this warning business by writing a letter about the time that will be taken to make it appear that it isn't propaganda. The whole thing is a book designed for no other purpose than to keep mills away from Canada.

"The Association of Millers advises the Canadian mills that while in the year 1933 the production fell slightly short of the deliveries in that year, in 1934, the production was greater than the deliveries, and that the stocks on hand in January were substantially in excess of previous years. This advance information concerning February 1935 indicates a substantial drop in deliveries over previous years."

This is what the warning is said to have gone out to the mills and which Mr. Hallam said he had to send out to justify it.

The warning is said to be:

"Great care must be exercised in production because there is machine capacity in excess of requirements. The Canadian mills have now absorbed all the business which was formerly held by foreign mills that they can reasonably expect to obtain and consequently this source of expansion has come to an end. The 1933 and 1934 figures indicate clearly that the market for production of Canadian mills has become static and that no expansion is possible unless conditions in Canada improve so that it will be possible to obtain more business. At present of as much as 20 to 25% in the case of...

" "taken care of by machinery already installed."

THE COMMISSIONER: That means then, according to this, that they had an over-provision of machinery of 20 to 25%.

5 MR. McRUER: Yes, my lord. Now --

" No letters sent to the mills containing any such warning as is mentioned in Exhibit 659 have been forthcoming, but, in any case, the letter to Mr. Marx makes it clear that this statement was issued to the American papers as pure propaganda to discourage mills locating in Canada". Then, I mention what I have already said. Now, Mr. Hallam was asked specifically in his evidence, as I recollect it, if he could produce any letters that were sent out to the mills, and was asked to produce them and he didn't do it. We could not get them from him. Now, it doesn't do for my friend to argue now they were sent out. They ought to be here and if they were sent out we know why they were sent out. They were sent out to justify a piece of propaganda. So he said to Mr. Marx,

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Now, there were other instances of like conduct by Mr. Hallam. In 1933 he had given some information in regard to the silk industry to Women's Wear. Now, Women's Wear is a paper in the United States having a large circulation among the trade, among the manufacturers over there.

25

"The figures given were apparently correct, but this brought forth a protest from Mr. Cowling, the President of the Silk Association of Canada in a letter dated May 11th, 1933".

30

"I am sure of by machinery already installed."

THE COMMISSIONER: That means there, according to this, that they had an over-provision of machinery of 20 to 25%.

MR. McNEIL: Yes, my lord, now --

"No letters sent to the mills containing any such warning as is mentioned in Exhibit 653 have been forthcoming, but, in any case, the letter to Mr. Marx makes it clear that this statement was issued to the American papers as pure propaganda to discourage mills locating in Canada." Then, I

mention what I have already said. Now, Mr. Hallam was asked specifically in his evidence, as I recollect it, if he could produce any letters that were sent out to the mills, and was asked to produce them and he didn't do it. We could not get them from him. Now it doesn't do for my friend to argue now they were sent out. They ought to be here and if they were sent out we know why they were sent out. They were sent out to justify a claim of propaganda. He is not to be taken

Now, there were other instances of like conduct by Mr. Hallam. In 1903 he had given some information in regard to the silk industry to Horan's West. Now

there is a paper in the United States called large circulation among the mills, and the commission over there.

"The Illinois Glass Bottle Blowers' Association, for this brought forth a protest from Mr. Cowling, the President of the Glass Bottle Blowers' Association in a letter to the Illinois Glass Bottle Blowers' Association."

Mr. Cowling protested strongly that this information, which was evidently true information, should be given to Women's Wear. Now, we will see what Mr. Hallam says as to why he had given it.

5 THE COMMISSIONER: Have we the information itself?

MR. McRUER: Yes, my lord, we have.

THE COMMISSIONER: What was published in Women's Wear?

MR. KELLOCK: No, my lord, I don't think we have.

That could not be located.

10 MR. McRUER: Oh, I thought we had a copy of it.

MR. KELLOCK: I tried very hard, my lord, to get the periodical itself but we could not get it, but, as my friend says, the information was correct.

15 MR. McRUER: Now, what Mr. Cowling says to Mr. Hallam is --

"If you can throw any light on the origin of this article, I should be glad if you would kindly communicate with me, as I do not think it is in the interest of our Trade to publish particulars of this kind which might give the impression to some of our friends in the States that Canada has yet plenty of room for development of the silk industry".

20 So that here is information that was given out to the States for another purpose, but he says "I do not think it is a good idea to give them information like that because it is going to let them know we are doing pretty well over here, and it is going to be an invitation to some other body to come in".

25 MR. KELLOCK: If I might just clear up a point --

30 MR. McRUER: Please, you can reply to me. That is

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Mr. Chairman: I have no further information to give you at present, but I will be glad to answer any questions you may have.

THE CHAIRMAN: Have we the information itself?
MR. BRIDGIE: Yes, my lord, we have.

THE CHAIRMAN: What was published in the "Toronto Star"?
MR. BRIDGIE: No, my lord, I don't think we have.

That could not be located.

MR. BRIDGIE: Oh, I thought we had a copy of it.

MR. BRIDGIE: I have very much to say, my lord, but I

periodical itself but we could not get it, but, as my

friend says, the information was correct.

MR. BRIDGIE: Now, what Mr. Cowling says to me.

Believe me --

"If you can give me any more information, please do so."

Believe me, I should be glad to give you any further information.

Believe me, as I am sure it is in the interest of the public.

Believe me, I am sure you will find this information of great value.

Believe me, I am sure you will find this information of great value.

Believe me, I am sure you will find this information of great value.

development of the silk industry."

So that here is information that was given out to the

States for another purpose, but he says "I do not think

it is a good idea to give them information like that

because it is in the interest of the public to have the truth

and I am sure you will find this information of great value.

some other body to come in."

MR. BRIDGIE: If I might just clear up a point --

MR. BRIDGIE: Please, you can reply to me. That is

my interpretation of this and I think it is sound.

"If you do not know at the moment who supplied the material for this article, it might be as well to make inquiries, with a view to stopping this kind of news, which, in my opinion, would be best left unpublished".

Then, in reference to the article Mr. Marx, the Chairman of the Broad Silk Section, wrote to Mr. Hallam -- that was from Mr. Cowling -- then, Mr. Marx wrote to Mr. Hallam about it, too.

"When I saw this article I immediately took it up with Mr. Cowling, and asked him to write you. I was very much surprised that anybody had given out such figures. Of course, I know that it was not you, but somebody has been very foolish".

Well, Mr. Hallam acknowledged that it had been him, but see what Mr. Hallam says in his letter, the letter he wrote to Mr. Cowling.

"In discussing raw material prices and the situation generally I used the figures contained in the clipping. At the time my view was that information on the increase in raw silk prices and such information would give the buyers in Canada something to think about and stimulate business, and I must confess at the time that the point that it might encourage U.S. mills to consider entering Canada was not in my mind as it usually is, when I either write or talk about the silk trade to anyone."

So Mr. Hallam has made it quite clear that I said something about prices increasing in Canada, but I never

interpretation of this and I think it is sound.

" If you do not know at the moment who supplied

the material for the exhibition, it would be

to make inquiries, with a view to stopping this

kind of news, which, in my opinion, would be best

left unpublished."

Then, in reference to the article Mr. Marx, the Chairman

of the Broad Silk Section, wrote to Mr. Hallam -- that

was from Mr. Cowling -- then, Mr. Marx wrote to Mr.

Hallam about it, too.

" When I saw this article I immediately took it

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I was very much surprised that anybody had given out

such figures. Of course, I knew that it was not you,

but somebody has been very foolish."

Well, Mr. Hallam acknowledged that it had been him, but

saw what Mr. Hallam says in his letter, the latter has

been very foolish."

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situation generally I used the figures contained in

the clipping. At the time my view was that inter-

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it might encourage U.S. mills to consider entering

Canada was not in my mind as it rarely is, when

either write or talk about the silk trade to anyone."

Mr. Hallam says it was very foolish."

something about prices increasing in Canada, but I

thought for a minute that would induce any United States mills to come here because I usually have that matter in mind and I never say anything that would do that; I would not be guilty of anything like that".

Then, on September 25, 1928, Mr. Hallam wrote to Mr. Watson:

"I was very pleased to have your letter of September 24th re publicity for the Silk Industry through the Women's Institutes. The points you made are carefully noted and I believe the work can be done without supplying useful information to foreign firms who may desire to locate in Canada".

He says, "I think we can carry on this propaganda through the Women's Institutes without giving any information that would bring any other body here". We want this for ourselves.

Then, I deal with another company that was evidently intending to start here, The Manhattan Mills, Limited, and Mr. Watson said, in reference to this enterprise:

"I am wondering whether we could in good taste draw his attention to the fact that a lot of things might happen at the coming Imperial Conference to make the weaving of rayon in Canada quite a questionable proposition and suggest to him that they should make some enquiries at Ottawa before they start up their plant or postpone same until this question is settled by the Imperial Conference and become members of the Association in the meantime so that we can use this establishment as an argument to further

thought for a minute that would induce any United States
...
that matter in mind and I never say anything that
would do that? I would not be guilty of anything
like that."

Then, on September 25, 1938, Mr. Bellin wrote
to Mr. Watson:

"I was very pleased to have your letter of
September 24th re publicity for the Silk Industry
through the Women's Institutes. The points you
made are carefully noted and I believe the work
can be done without supplying useful information
to foreign firms who may desire to locate in Canada.
He says, "I think we can carry on this propaganda through
the Women's Institutes without giving any information
that would bring any other body here". We want this
for ourselves."

Then, I deal with another company that was evidently
intending to start here, The Hamilton Mills, Limited,
and Mr. Watson said, in reference to this enterprise:
"I am wondering whether we could in good taste draw
his attention to the fact that a lot of things might
be open at the coming Imperial Conference to make
weaving of rayon in Canada quite a questionable
proposition and suggest to him that they should
make some enquiries at Ottawa before they start
their plant or postpone same until this question is
settled by the Imperial Conference and become mem-
bers of the Association in the meantime so that we
can use this establishment as an argument to further

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"getting adequate protection or at least retaining what we have on the present schedule".

Now, Mr. Watson says two things here. He says in the first place try and get this fellow to just hold off, frighten him a little about what might happen at the Imperial Conference before he starts up his plant, but in the meantime get him to be a member of our Association so we can go to Ottawa and say "we have one more member of our Association, and if you do anything you are going to hurt us because look at the number of plants we have here, and this adds one to it". It just shows what is going on. We did not write these letters. They are written by important officials of the Association and there is what they are saying among themselves, and I think the very best evidence of what they do, on what they say in their correspondence one with another.

I mention the other activities of Mr. Hallam in relation to his study club notes, and how he was even trying to educate the Liberal Members of Parliament, so he said. I don't know what success he had.

Then, one other matter that I think I ought not to pass over, and that is that we found -- and I cannot say and do not say that this was organized by the Association -- we find Mr. Watson suggesting it is time for them to get busy, prepare for the inevitable, and get out propaganda for the collection of funds, and the inevitable being an election, but Mr. Hallam said he never collected any funds, and that is all the evidence there is on that.

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Now, Mr. Watson says two things here. He says in the first place try and get this fellow to just hold off. Tighten him a little about what might happen at the Imperial Conference before he starts up his plant.

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Association so we can go to Ottawa and say "we have a more member of our Association, and if you do anything you are going to hurt us because look at the number of plants we have here, and this adds one to it".

Just shows what is going on. We did not write there

last year, and we will be in a position to do so

the Association and there is what they are saying about it. I think we have got to get out of what they do, on what they say in their correspondence one with another.

I mention the other activities of Mr. Williams in

relation to his study club notes, and how he was even trying to educate the Liberal members of Parliament so he said. I don't know what success he had.

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pass over, and that is that we found -- and I cannot say

and do not say that this was organized by the Association we find Mr. Watson suggesting it is time for them to get busy, prepare for the inevitable, and get out

preparations for the collection of funds, and the like

these things are all right, but Mr. Watson will be sure

will get my funds, and that is all the evidence there

is to be had.

MR. KELLOCK: Mr. Watson said he never heard of the thing being done either.

MR. McRUER: No.

THE COMMISSIONER: What is that that he never heard?

5 MR. KELLOCK: Mr. Watson, who wrote that letter, said he never knew of it being done.

MR. McRUER: He was evidently wanting to institute something.

10 THE COMMISSIONER: Did he say what he was writing it for?

MR. KELLOCK: It was his suggestion, but he said it had never been done in his experience before or after that time.

15 MR. McRUER: I suppose my friend is saying no textile firm ever collected funds for campaign purposes.

MR. KELLOCK: My friend has more experience in that than I.

20 MR. McRUER: Well, my friend better get out and learn something. However, there is no doubt that what Mr. Watson was proposing to do, at any rate, was to use the power of their organization for the collection of campaign funds, and he says they did not do it and Mr. Hallam said he never heard of such a thing.

25 THE COMMISSIONER: What did Mr. Watson say about that?

MR. McRUER: He said it was merely one of his suggestions to Mr. Hallam. That was, as I recollect it, his evidence.

MR. KELLOCK: That is correct.

30 MR. McRUER: He said it was just one of his suggestions I think Mr. Watson rather took the attitude that he was

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MR. KILLOCK: Mr. Watson said he never heard of the

being heard of by him.

MR. McRURK:

THE COMMISSIONER: What is that that he never heard

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it, his evidence.

MR. KILLOCK: That is correct.

MR. McRURK: He said it was one of his suggestions

I think Mr. Watson rather took the attitude that he

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5 a good suggester but nobody ever paid attention to
anything he suggested. That is rather the way he
put it generally in his evidence, but I don't know
whether they would keep him as Chairman of the Tariff
Committee of the Silk Association if nobody ever paid
any attention to him, but when we come to the Monarch
Knitting Company we have something that is definitely
reprehensible with any industry, and that is that they
should associate a political campaign, put political
10 propaganda with the pay of the employees by putting
into their pay envelopes, sealed in the ir pay envelopes,
political propaganda, and I want to just deal for a
moment with what actually happened here and the
dishonesty of what happened, the absolute dishonesty
15 of it and the unfairness to the employees.

Now, this pamphlet that was put into the pay
envelopes at the Dunnville plant of the Monarch
Knitting Company contains the following paragraph;
this was put in just prior to the election of 1935
20 along with the pay and sealed in the envelope.

"Mr. King has pledged himself to tariff reductions
which will flood the Canadian market with textile
goods from Japan and other foreign countries.

25 Do you realize what this means to the jobs of
46,000 textile workers in Ontario, of which about
26,000 are women?

What will happen in the 82 cities, towns and villages
of Ontario in which textile plants are located?

30 The pamphlet goes on to say"-- and this is a
statement concerning which I just wish to test its truth.

a good suggestion but nobody ever paid attention to anything he suggested. That is rather the way he

was at times in his business, but I don't know

whether they would keep him as Chairman of the

Committee of the Silk Association if nobody ever paid

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envelopes at the Knoxville plant of the

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this was put in just prior to the election of 1935

along with the pay and sealed in the envelope.

"Mr. King has pledged himself to tariff reductions

which will flood the Canadian market with textile

goods from Japan and other foreign countries.

Do you realize what this means to the jobs of

45,000 textile workers in Ontario, of which about

35,000 are women?

It will mean the loss of jobs for many of them.

Of Ontario in which textile plants are located?

The answer is yes, and that is the

reason why I went to test it

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"Sixty years ago the Conservative Government provided textile tariffs under which a prosperous textile industry was built up in Ontario towns.

Thirty years ago"-- and that would take us back to 1905 -- "Thirty years ago the Liberal Government reduced existing tariff rates and many spinners, weavers and dyers were thrown out of jobs, many lost their homes, many had to emigrate. The Ontario villages and towns that lived upon the textile industry were sent into decay".

Now, that was put into the pay envelopes in Dunnville by the Monarch Knitting Company. Between 1903 and 1912, just at the period that this company was telling its employees in 1935 that the Ontario villages and towns that lived upon the textile industry were sent into decay \$7,500 invested in the very business where these employees were working had multiplied to \$750,000, and not only that but the evidence shows that at the very time that they say that employees were having to emigrate that very firm was sending an Anglican minister to England and Scotland to get employees and bring them to Dunnville because there were insufficient employees in Dunnville to meet the needs of the company. They were importing immigrants into Dunnville to work in their factories and paying their expenses to come there.

THE COMMISSIONER: Was it not in 1909?

MR. KELLOCK: Yes, your lordship asked the question at the top of the next page in my friend's brief.

THE COMMISSIONER: Was it not in 1909 this company built a second plant?

which would be the Government's

provided textile tariffs under which a prosperous

textile industry was built up in Ontario towns.

Thirty years ago" -- and that would take us back

to the time when the textile industry was in its infancy

existing tariff rates and many spinners, weavers and

others were thrown out of jobs, many lost their homes,

many had to emigrate. The Ontario villages and towns

that lived upon the textile industry were sent into

decay.

Now, that was put into the pay envelopes in Dunaville

by the Honorable knitting company. Between 1908 and 1912,

just at the period that this company was selling its

employees in 1908 that the Ontario villages and towns

that lived upon the textile industry were sent into decay.

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employees were working had multiplied to \$750,000, and

not only that but the evidence shows that at the very

time that they say that employees were having to

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to England and Scotland to get employees and bring them

to Dunaville because there were insufficient employees

in Dunaville to meet the needs of the company. They

were importing immigrants into Dunaville to work in

their factories and paying their expenses to come there.

THE QUESTION IS NOT IN 1908

ALL EMPLOYEES WERE SENT TO THE FRONT

at the top of the next page in my friend's brief.

THE QUESTION IS NOT IN 1908

with a second client?

MR. McRUER: They built a second plant in St. Catharines and one in St. Thomas.

THE COMMISSIONER In 1910.

5 MR. KELLOCK: That is at the time that the new employees were brought out.

MR. McRUER: And at the very time that the \$7,500 was multiplying to \$750,000 this company comes in 1935 and tells this dismal story to its employees to frighten them into voting in a particular way.

10 MR. BRUNEAU: How did it work, Mr. McRuer?

MR. McRUER: Oh, it was successful propaganda.

MR. BRUNEAU: I have always thought that sort of thing failed.

15 MR. McRUER: Oh, they have tried it, have they, at Canadian Cottons?

MR. BRUNEAU: No, never; we have a clean record in that respect.

20 MR. McRUER: At any rate, however it may have worked the employees have the right to expect that they will receive, at least, a free hand, disassociated from any connection with their pay whatever, to vote as they like in any industry, and what is more common honesty demands that if any statement is undertaken to be made by a tariff protected industry to its employees it shall not so violate the truth as this statement violated it. Strong language is not strong enough to condemn an action such as that with the background of history that the company has.

25 Now, this brings me to the subject of combinations and monopolies, my lord.

30 The Commission adjourned for a short recess.

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MR. McHUGH: They built a second plant in St.

Cathartine and one in St. Thomas.

THE COMMISSIONER: In 1910.

MR. McHUGH: That is at the time that the new

employees were brought out.

MR. McHUGH: And at the very time that the \$7,500

was multiplying to \$750,000 this company comes in

1935 and tells this dismal story to its employees to

frighten them into voting in a particular way.

MR. BROWN: How did it work, Mr. McHUGH?

MR. McHUGH: Oh, it was successful propaganda.

MR. BROWN: I have always thought that sort of

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MR. McHUGH: Oh, they have tried it, have they, at

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MR. BROWN: No, never; we have a clean record in

that respect.

MR. McHUGH: At the time, however, it may have seemed

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receive, at least, a free hand, dissociated from

any connection with their pay whatever, to vote as the

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demand that if any statement is undertaken to be made

by a tariff protected industry to its employees it

shall not so violate the truth as this statement

violated it. Strong language is not strong enough

to condemn an action such as that with the background

of history for the company.

Now, this is the history of the company.

and controlled, at least.

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--- On resuming at 12.P.M.

MR. McRUER: Now, what I have to say in regard to the subject of combinations and monopolies must be prefaced by some reference to the Canadian Law. In considering any agreement in restraint of trade or price-fixing agreement or monopoly in Canada we have to have in mind the very drastic increases in tariff protection given to the industry in 1930. If an industry carries on business under free trade conditions without any tariff protection the injury that is likely to be done to the consumer by a trade agreement is probably a small one, depending to a certain extent on how far the consumer is dependent on the domestic source of supply. But when we have a tariff protection given to the members of the industry which says that up to a certain point you may charge before you are subjected to any foreign competition or any competition from abroad, and you have the members of the industry getting together and eliminating domestic competition, it puts the consumer absolutely within the taxing power of the industry and they have the power to take from the consumer every last dollar that they can take from him before reaching the level at which goods will come in and pay the transportation charges to Canada and pay all the different varieties of duties that may be imposed upon them. So that

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THE CANADIAN TARIFF COMMISSION

MR. HORTON: Now, what I have to say in regard
to the subject of combinations and monopolies must
be preceded by some reference to the Canadian law.
In considering any agreement in restraint of trade
or price-fixing agreement or monopoly in Canada we
have to have in mind the very drastic measures
in tariff protection given to the industry in 1900.
If an industry carries on business under free trade
conditions without any tariff protection the injury
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certain extent on how far the consumer is dependent
on the domestic source of supply. But when we have
a tariff protection given to the members of the industry
which says that up to a certain point you may charge
before you are subjected to any foreign competition
or any competition from abroad, and you have the
members of the industry getting together and eliminating
domestic competition, it puts the consumer absolutely
within the taxing power of the industry and they have
the power to take from the consumer every last dollar
that they can take from him before reaching the level
of competition with the rest of the world.
It is to Canada and pay all the different varieties
of goods that are in the market.

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I am not enunciating any new or novel principle of law when I say that trade agreement and agreements against competition must be scrutinized much more carefully in a country where there is a protective tariff than it is necessary to scrutinize them in a country where there is not a protective tariff, and I will refer in a moment to judicial authority in that regard.

Now, the first effort that was made in Canada to deal with the subject of trade agreement, agreements stifling competition or agreements to enhance the price, was made in 1889, I think it was, when section 498 of the Criminal Code was enacted. In 1910 the present Prime Minister as Minister of Labour introduced a Combine Act, which was an Act designed for the purpose of investigating combines but did not contain provisions for the dissolution of combines, it being considered, I take it, at that time that that was beyond the constitutional power of the Dominion of Canada. In 1919 two statutes were passed known as the Board of Commerce Act and the Combines and Fair Prices Act. These Statutes provided for the investigation of combines, provided for investigation as to whether prices were fair or not and powers of that sort and the Board of Commerce was empowered to make orders for the dissolution of combines and if the Board's orders were disobeyed provision was made that those disobeying the orders should be liable to certain

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I am not announcing any new or novel principle of law
then I say that trade
is a matter of public policy
and it is a matter of public policy
there is not a protective tariff, and I say
refer in a moment to judicial authority in that regard
and, the first effect of that measure is to
to call into the market the first effect, the
selling authority of measure is to remove the
price, was made in 1892, I think it was, and was
and of the official code was removed. In 1892
the highest price of wheat in Canada
influenced a British act, and was the first
for the purpose of investigating the wheat and off and
British provision for the elimination of wheat,
of being eliminated, I say it, it was that year
and beyond the constitutional power of the government
of wheat. In 1892 the wheat was raised again
in the House of Commons and the question was put
before the House. These matters provided for the raising
of wheat, provided for investigation as to
whether wheat was sold at low and prices of that
kind and the House of Commons was empowered to make
orders for the elimination of wheat and in the House
where very different provisions are made that year
eliminating the wheat should be...

penalties. It was made a criminal offence to
disobey the Board's order. This Act went to
the Privy Council on a Reference and was held by the
Privy Council to be ultra vires of the Dominion of
Canada, in that it was considered to be within the
jurisdiction of the Provinces only to make orders
in regard to those rights of contract and make orders
that an agreement in restraint of trade should be
dissolved, and that other powers held by the Board
were also held to be ultra vires. Then in 1923 the
Combines Investigation Act was introduced, which
was drawn in the light of the decision to the Privy
Council in regard to the Board of Commerce Act
and Combine and Fair Prices Act. The Combines
Investigations Act made it a criminal offence to
combine to do certain things, which I shall refer
to in a moment, and provided also machinery for
investigating to determine whether parties had com-
bined to do those offensive acts. That act went
to the Privy Council again in 1929 or 1930.

THE COMMISSIONER: Was that a reference?

MR. McRUER: Yes, on a reference. It was
referred to the Supreme Court of Canada in 1929
and in 1930 went to the Privy Council. Judgment
was given in 1931, as I recollect it, holding that
that Act was valid and that is the Act that is in
force now with some slight amendments and governs
the action of members of this industry since 1923.

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disobey the Board's order. This Act went to
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Privy Council to be ultra vires of the Dominion of
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Council in regard to the Board of Commerce Act
and Combines and War Prices Act. The Combines
Investigation Act made it a criminal offence to
combine to do certain things, which I shall refer
to in a moment, and provided also machinery for
investigating to determine whether parties had com-
bined to do those offensive acts. That Act went
to the Privy Council again in 1939 or 1940.
THE COMMISSIONER: Was that a reference?
MR. MORRIS: Yes, on a reference. It was
referred to the Supreme Court of Canada in 1940
and in 1950 went to the Privy Council. Judgment
was given in 1951, as I recollect it, holding that
that Act was valid and that is the Act that is in
force now with some slight amendments and governs
the system of business in this country since 1951.

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5 May I just analyse for a moment, my lord,
some of the provisions of the Combines Act? They
are copied at page 289. In the first place we
have the definition of "Combine" as amended by the
Statute of 1935. There is not a great deal of
change in the definition, only it was set up in
better form.

10 "Combine means a combination having
relation to any commodity which may be the
subject of trade or commerce, of two or
more persons by way of actual or tacit
contract, agreement or arrangement having
15 or designed to have the effect of,"
Now, there are two things there, one is that it is
an agreement having or designed to have the effect of.

20 "Limiting facilities for transporting,
producing, manufacturing, supplying,
storing or dealing, or
(b) preventing, limiting or lessening
manufacture or production, or
(c) Fixing a common price or a re-sale
25 price, or a common rental, or a common
cost or storage or transportation, or
(d) enhancing the price, rental or cost of
article, rental, storage or transportation,"

30 THE COMMISSIONER: That must be wrong. Would it
be 'any article'?

MR. McRUER: No, that is the way it is worded.

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may I just analyse for a moment, my lord,
some of the provisions of the Companies Act? They
are copied at page 307. In the first place we
have the definition of "Company" as a limited liability
company of 1905. There is not a great deal of
change in the definition, only it was set up in
better form.

"Company means a combination having
relation to any commodity which may be the
subject of trade or commerce, of two or
more persons by way of contract or lease
contract, agreement or arrangement having
or designed to have the effect of,"
Now, there are two things there, one is that it is
an agreement having or designed to have the effect of,

"limiting facilities for transporting,
storing or dealing, or
(b) preventing, limiting or lessening
(c) fixing a common price or a re-sale
price, or a common rental, or a common
cost of storage or transportation, or
(d) limiting the sale, rental or transportation,
articles, rental, storage or transportation,
That must be wrong. Would it
any article?
MR. McRURK: No, that is the way it is worded.

I had great difficulty in knowing what that meant.

THE COMMISSIONER: I think it simply means any article.

MR. McRUER:

"(e) Preventing or lessening competition in, or substantially controlling within any particular area or district generally, production, manufacture, purchase, barter, sale, storage, transportation, insurance or supply, or

(f) Otherwise restraining or injuring trade or commerce,

or a merger, trust or monopoly, which combination, merger, trust or monopoly has operated or is likely to operate to the detriment or against the interest of the public, whether consumers, producers, or others?"

The very important words are "has operated or is likely to operate to the detriment or against the interest of the public." Now, it may have operated or it may only be that it is likely to operate to the detriment or against the interest of the public.

THE COMMISSIONER: I suppose if it is found to have operated that discloses its nature and then you have the proof or otherwise you have to decide whether it is likely to operate.

MR. McRUER: Yes, it may not yet have operated to the detriment of the public but you must decide under all these circumstances is it likely to operate to the detriment of the public having regard to all

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I had great difficulty in knowing what time meant.
THE COMMISSIONER: I think it simply means any

"(c) preventing or lessening competition in,

or substantially controlling within any

particular area or district generally, production,

distribution, sale, or use,

transportation, or otherwise, or

(f) otherwise restraining or injuring trade or

commerce,

or a merger, trust or monopoly, which combination,

merger, trust or monopoly has operated or is likely

to operate to the detriment of the public,

of the public, whether consumers, producers, or otherwise.

The very important words are "has operated or is

likely to operate to the detriment or against the

interest of the public."

It is not only the fact that it is likely to operate to

the detriment or against the interest of the public.

THE COMMISSIONER: I suppose it is as far as

to have operated that discloses its nature and then

you have the proof or otherwise you have to decide

whether it is likely to operate.

MR. MURPHY: Yes, it may not have operated

to the detriment of the public but you have to

show all these circumstances in its likely operation

to the detriment of the public having regard to all

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the circumstances and to human nature as it is.

"A merger, trust or monopoly is defined as follows:

'Merger, trust or monopoly' means one or more persons

(a) who has or have purchased, leased or otherwise acquired any control over or interest in the whole or part of the business of another."

That is, if they have gone together.

"(B) who either substantially or completely control, throughout any particular area or district in Canada or throughout Canada the class or species of business in which he is or they are engaged;

and extends and applies only to the business of manufacturing, producing, transporting, purchasing supplying, storing or dealing in commodities which may be the subject of trade or commerce:"

We are not concerned with what may not be in it.

We know as far as the Textile Industry is concerned that they do deal in those articles that may bring them within the scope of the Act.

"Provided that this subsection shall not be construed or applied so as to limit or impair any right or interest derived under 'The Patent Act, 1935', or under any other statute of Canada."

Now, the penalties are provided by Section 32.

the circumstances and to human nature as it is.
"a merger, trust or monopoly is defined as

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thereby, that it is a monopoly, which may

be a monopoly

(c) who has or have purchased, issued or

otherwise acquired any control over or

interest in the assets of any of the companies

another."

but is, if they have gone together.

the same principle applies to companies

control, throughout any period or even

or district in Canada or throughout

the same principle applies to companies

in which he is or they are engaged;

and extends and applies only to the business of

manufacturing, processing, distributing, marketing

commodities, whether in whole or in part.

may be the subject of trade or commerce."

we are not concerned with what may not be in it.

we know as far as the Textile Industry is concerned

that they do deal in these articles that may bring

them within the scope of the Act.

"Provided that this subsection shall not be

construed or applied so as to limit or impair any

right or interest derived under the Patent

Act, 1911, or under any other statute of Canada.

and, the provisions of this Act shall not apply

5 "32. Every one is guilty of an indictable
offence and liable to a penalty not exceeding
ten thousand dollars or to two years imprison-
ment, or if a corporation to a penalty not
exceeding twenty-five thousand dollars, who is
a party or privy to or knowingly assists in
the formation or operation of a combine within
the meaning of this Act."

10 Now, the effect of all that is this that under Section
2, on page 289, a combine is defined as anyone who
does any of those things and if you are a cokbine
then you are subject to the penalties or if you are
a party to or privy to or knowingly assist in the
15 formation or operation of a combine, you are subject
to the penalties provided by Section 32.

So that if parties are parties to an agreement for
fixing a common price or re-sale price or party to
20 an agreement preventing, limiting or lessening
production or parties to an agreement preventing
or lessening competition, which is either actual
or tacit or is designed to have any of these effects
and which is operated or is likely to operate to the
25 detriment of the public, then those parties offend
against the provisions of the Act.

Now, that is the Combines Act which has been
in effect since 1923. Some slight change in the
wording of the definition over that time but not so
30 substantial as to affect our consideration to-day.

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"35. Every one is guilty of an indictable offence and liable to a penalty not exceeding ten thousand dollars or to two years imprisonment, or if a corporation to a penalty not exceeding twenty-five thousand dollars, who is a party or privy to or knowingly assists in the formation or operation of a combine within the meaning of this Act."

Now, the effect of all that is this that under section 2, on page 252, a combine is defined as anyone who does any of those things and if you are a combine then you are subject to the penalties or if you are a party to or privy to or knowingly assist in the formation or operation of a combine, you are subject to the penalties provided by section 35.

So that if parties are parties to an agreement for fixing a common price or re-sale price or party to an agreement preventing, limiting or lessening production or parties to an agreement preventing or lessening competition, which is either actual or tacit or is designed to have any of these effects and which is operated or is likely to operate to the detriment of the public, then those parties offend against the provisions of the Act.

Now, that is the Companies Act which has been in effect since 1925. Some slight change in the

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Then we come to Section 498 of the Criminal Code. It was first enacted in 1889, and my recollection is that Hansard - I can have this turned up - but it just comes to me now - I have not referred in my brief to it - that the debate in Hansard shows that this section was introduced because of the protective tariff.

THE COMMISSIONER: You mean in 1889? What years' debates are you referring to?

MR. McRUER: In the Debates of 1889. This section 498 of the Criminal Code went to the Privy Council on the Reference at the same time as the Combines Act to determine whether or not it was within the power of the Dominion Parliament to enact this as a criminal offence.

THE COMMISSIONER: And it was upheld?

MR. McRUER: Yes. I have just asked Mr. Walton to get from the Department of Justice the Facts that were filed at that time because they will have a complete record of the history of the legislation.

Now, Section 498 of the Criminal Code reads as follows:

"Every one is guilty of an indictable offence and liable to a penalty not exceeding four thousand dollars and not less than two hundred dollars, or to two years imprisonment, or, if a corporation, is liable to a penalty not

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Then we come to section 128 of the Criminal

Code. It was first enacted in 1889, and my recollection

is that it was amended in 1890 - I can have this turned up -

but it just comes to me now - I have not referred

in my brief to it - that the debate in Parliament was

that this section was introduced because of the

protective tariff.

THE COMMISSIONER: You mean in 1889? That year?

debates are you referring to?

MR. MORRIS: In the debates of 1889. This section

was introduced in 1889.

on the reference at the same time as the Commission

to determine whether or not it was within the power

of the Dominion Parliament to enact this as a criminal

offence.

THE COMMISSIONER: Yes, I have just asked Mr. Nelson

to get from the Department of Justice the Western

that were filed at that time because they will have a

complete record of the history of the legislation.

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THE COMMISSIONER: Yes, I have just asked Mr. Nelson

to get from the Department of Justice the Western

that were filed at that time because they will have a

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not exceeding ten thousand dollars, and not less than one thousand dollars, who conspires, combines, agrees or arranges with any other person, or with any railway, steamship, steamboat or transportation company.

(a) to unduly limit the facilities for transporting, producing, manufacturing, supplying, storing or dealing in any article or commodity which may be a subject of trade or commerce; or

(b) to restrain or injure trade or commerce in relation to any such article or commodity;"

Your Lordship will notice the word "unduly" is not in paragraph (b). The word appears in the other three paragraphs but not in paragraph (b).

THE COMMISSIONER: That will mean then, merely to restrain trade or commerce in relation to any article is a criminal offence.

MR. McRUER: "(c) to unduly prevent, limit, or lessen the manufacture or production of any such article commodity, or to unreasonably enhance the price thereof;"

You see, they are rather promiscuous in their language.

THE COMMISSIONER: Yes, I notice Parliament splits their infinitives.

MR. McRUER: When this went to the Privy Council, in the judgment of Lord Atkins he draws attention to the fact of the split infinitives.

"(d) to unduly prevent or lessen competition

and extending ten thousand dollars, and not
less than five thousand dollars, and including
combines, agrees or arrangements with any other
person, or with any railway, steamship,

(a) to unduly limit the facilities for transport
or dealing in any article or commodity which may
be a subject of trade or commerce; or
(b) to restrain or injure trade or commerce

in relation to any such article or commodity;
Your Lordship will notice the words "unduly" is not
in paragraph (b). The word appears in the other
three paragraphs but not in paragraph (b).

THE COMMISSIONER: That will mean then, namely to
restrain trade or commerce in relation to any article
is a criminal offence.

MR. McLENNAN: "(c) to unduly prevent, limit,
or lessen the manufacture or production of any
such article unduly," as to unduly
enhance the price thereof."

THE COMMISSIONER: I believe that the words
"unduly" are not in the Bill (I think).
The words "unduly" are not in the Bill (I think).
The words "unduly" are not in the Bill (I think).
The words "unduly" are not in the Bill (I think).
The words "unduly" are not in the Bill (I think).

in the production, manufacture, purchase,
barter, sale transportation or supply of any
such article or commodity, or in the prize of
insurance upon person or property.

2. Nothing in this section shall be construed to
apply to combinations or workmen or employees for
their own reasonable protection as such workmen
or employees."

Now, I am not going to deal with the judicial inter-
pretation of these acts at the moment until we have
reviewed all the statutes that bear on the question
of combinations.

Now, when we come to the Customs Tariff Act,
Section 15, as a section, has been in the Act for
some time:

"Whenever the Governor in Council deems it to
be in the public interest to inquire into
any conspiracy, combination, agreement or
arrangement alleged to exist among manufacturers
or dealers in any article of commerce to unduly
promote the advantage of the manufacturers or
dealers in such article at the expense of the
consumers, the Governor in Council may commission
or empower any Judge of the Supreme Court
or of the Exchequer Court of Canada, or of any
superior court or county court in Canada, to hold an
inquiry in a summary way and report to the
Governor in Council whether such conspiracy,

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in the production, transportation, or sale of any
barter, sale transportation or supply of any
such article or commodity, or in the sale of
insurance upon person or property.

2. Nothing in this section shall be construed to
apply to combinations or workmen or employees for
their own reasonable protection as such workmen

Now, I am not going to deal with the judicial inter-
pretation of those acts at the moment until we have
reviewed all the statutes that bear on the question
of combinations.

Now, when we come to the Customs Tariff Act,
Section 15, as a section, has been in the act for
some time:

"Whenever the Governor in Council sees fit to
be in the public interest to inquire into
any conspiracy, combination, agreement or
arrangement alleged to exist among manufacturers
or dealers in any article of commerce to unduly
promote the advantage of the manufacturers or
dealers in such article at the expense of the
consumers, the Governor in Council may commission
or empower any judge of the Supreme Court
or of the Exchequer Court of Canada, or of any

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combination, agreement or arrangement exists."

To get the background of this Section, your lordship would need to remember that it was in the Customs Act before the Combines Investigation Act was passed. So that at the time this legislation was introduced into the Customs Act we did not have the provisions of the Combines Investigation Act making combining a criminal offence if likely to operate to the detriment of the public.

THE COMMISSIONER: When was this provision enacted?

MR. McRUER: That has been in for a long time.

THE COMMISSIONER: Is it in existence as long as section 498 of the Criminal Code?

MR. McRUER: No, my lord. I will get that information when I get these factums.

THE COMMISSIONER: The Statute itself ought to show that. That will refer to the last revision and that revision will refer you to the original.

MR. McRUER: "(2) The judge may compel the attendance of witnesses and examine them under oath and require the production of books and papers, and shall have such other necessary powers as are conferred on him by the Governor in Council for the purpose of such inquiry.

(3) If the judge reports that such conspiracy combination, agreement or arrangement exists in respect of such article, the Governor in Council

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combination, agreement or arrangement exists.
To get the background of this section, your testimony
would need to remember that it was in the business
act before the Combined Investigation Act was passed.
So that at the time this legislation was introduced
into the Statute Act we did not have the provisions
of the Combined Investigation Act making combining
a criminal offence it likely to operate to the detri-
ment of the public.

THE COMMISSIONER: When was this provision

MR. MONTGOMERY: That has been in for a long time.

THE COMMISSIONER: Is it in existence as long

as section 438 of the Criminal Code?

MR. MONTGOMERY: No, my lord. I will get that

information when I get the facts.

THE COMMISSIONER: The Statute itself ought

to show that. That will refer to the last provision

the last provision will refer to the subject.

MR. MONTGOMERY: "(2) The judge may compel the

production of documents and records from any

person and require the production of books and

papers, and shall have such other necessary

powers as are necessary or may be for the purpose

of the investigation of the business of any person.

(3) If the judge is satisfied that any person

has been or is likely to be guilty of an offence

under the Act, he may order in Council

5 may admit the article free of duty, or so
 reduce the duty thereon as to give to the public
 the benefit of reasonable competition in the
 article, if it appears to the Governor in
 Council that such disadvantage to the consumer
 is facilitated by the duties of Customs imposed
 on a like article."

10 That, of course, is a case where there is a specific
 reference by the Governor in Council for the purpose
 of determining these things and it is action that may
 be taken when the Governor in Council has the report
 of the Judge. That is to give the Governor in
15 Council a power to reduce duties without consulting
 Parliament.

 THE COMMISSIONER: That would seem to assume that
 the duty fixed by Parliament in the particular instance
 was too high.

20 MR. McRUER: Well, it would have to be too high
 before the Judge could report or the Council could
 come to the opinion that the disadvantage to the
 consumer was facilitated by the duties. I don't know
25 hat it starts off assuming in the first place it is
 too high.

 THE COMMISSIONER: Do not we generally assume that
 protective duties should not exceed that very limit -
 that is, the limit of affording reasonable competition.

30 MR. McRUER: I think if we assume it nowadays that

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may admit the article free of duty, or as
reduce the duty thereon as to give to the public
the benefit of reasonable competition in the
article, if it appears to the Governor in
Council that such disadvantage to the consumer
is facilitated by the duties of Customs imposed
on a like article."

That, of course, is a case where there is a specific
reference by the Governor in Council for the purpose
of determining these things and it is action that may
be taken when the Governor in Council has the report
of the Judge. That is to give the Governor in
Council a power to remove duties without consulting
the Governor.

THE CHIEF JUSTICE: That would seem to assume that
the duty fixed by Parliament in the particular instance
was too high.

MR. JUSTICE: Well, it would have to be too high
before the Judge could report on the Council could
come to the opinion that the disadvantage to the
consumer was facilitated by the duties. I don't know
what it states or assuming in the first place it is
too high.

THE CHIEF JUSTICE: Do not we generally assume that
protective duties should not exceed that very limit -
that is, the limit of allowing reasonable competition
with foreign goods? I think it is assumed that

the assumption is a rash one.

THE COMMISSIONER: That is certainly assumed in the British Treaty.

MR. McRUER: Yes.

THE COMMISSIONER: It is the foundation.

M. R. McRUER: Quite, it is the only sound foundation for any protective tariff, but what right have the manufacturers to say we demand from the Government the right that consumers buy from us and at any price we like to sell to them. It is a very erroneous standard for any duties to be fixed on.

There is some similar provision in the Combines Investigation Act, Section 29:

"Whenever from or as a result of an investigation under the provisions of this Act, or from or as a result of a judgment of the Supreme Court or Exchequer Court of Canada or of any

superior court, or circuit, district or county court in Canada, it appears to the satisfaction of the Governor in Council that with regard to any article of commerce, there exists any combine to promote unduly the advantage of manufacturers or dealers at the expense of the public, and it appears to the Governor in Council that such disadvantage is facilitated by the duties of customs imposed on the article, or on any like article, the Governor in Council may direct either that such article be admitted into Canada free of duty, or that the duty

the assumption is a rash one.

THE COMMISSIONER: That is certainly assumed in the

British Treaty.

MR. MORTIMER: Yes.

THE COMMISSIONER: It is the only sound form-

M. R. MORTIMER: Quite, it is the only sound form-

ation for any protective tariff, but what right have
the manufacturers to say we demand from the Government
the right that consumers pay from us and at any price
we like to sell to them. It is a very erroneous

standard for any duties to be fixed on.

There is some similar provision in the Canadian

Investment Act, Section 121.

"Whenever there is a result of an investigation
under the provisions of this Act, or from or as a
result of a judgment of the Supreme Court or
the Superior Court of Canada or of any

tribunal, or from or as a result of a judgment of the
Supreme Court of Canada or of any
tribunal, or from or as a result of a judgment of the
Supreme Court of Canada or of any

tribunal, or from or as a result of a judgment of the
Supreme Court of Canada or of any
tribunal, or from or as a result of a judgment of the
Supreme Court of Canada or of any

tribunal, or from or as a result of a judgment of the
Supreme Court of Canada or of any
tribunal, or from or as a result of a judgment of the
Supreme Court of Canada or of any

thereon be reduced to such amount or rate as will, in the opinion of the Governor in Council give the public the benefit of reasonable competition."

5 Now, the only difference there is between this section and the section in the Customs Tariff Act is that ~~at~~ this action may be taken either when an investigation has been held under the Combines Investigation Act and a combine disclosed or when as a result of a
10 judgment of the Supreme Court or Exchequer Court or Circuit Court or District or County Court it appears to the satisfaction of the Governor in Council that the combine exists. It extends the sources of infor-
15 mation that the Government in Council might have before acting.

THE COMMISSIONER: I think the Governor in Council must be convinced of two things: First,
20 that there is a combine and, secondly, that the Customs Tariff in respect to the articles dealt with facilitates the combine.

MR. McRUER: I think that is correct.

25 THE COMMISSIONER: And in that case take action.

MR. McRUER: And then comes the source of information on which he may depend to convince him.

THE COMMISSIONER: We will adjourn now.

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30 -- The Commission adjourned at 12.30 P.M. to resume at 2.30 P.M.

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will, in the opinion of the Governor in Council
give the public the benefit of reasonable

Now, the only difference there is between this section
and the section in the Customs Tariff Act is that in
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has been held under the Customs Investigation Act
and a combine disclosed or when as a result of a
judgment of the Supreme Court or Exchequer Court or
District Court or District or County Court it appears
to the satisfaction of the Governor in Council that
the combine exists. It extends the sources of infor-
mation that the Government in Council might have

THE COMMISSIONER: I think the Government is
convinced must be convinced of two things: First,

that there is a combine and, secondly, that the Customs
Tariff in respect to the articles dealt with
facilitates the combine.

MR. MORTIMER: I think that is correct.
THE COMMISSIONER: And in that case take action.
MR. MORTIMER: And then comes the source of infor-
mation on which he may depend to convince him.

AFTERNOON SESSION

-- On Resuming at 2.30 p.m.

ARGUMENT BY MR. McRUER, K.C. (Resumed):

5 I referred this morning, my lord, to the provisions of section 488 of the Criminal Code and the provisions of the Customs Tariff in respect to combines and combinations in restraint of trade, and I stated that when the sections were introduced into parliament, especially the provisions in the Criminal Code, they were expressly referred to as protection to the consumer in a country where there was a protective tariff. I have here a reference to Hansard,
10 February 29, 1888.

15 THE COMMISSIONER: Was this provision, which is now section 17 of the Customs Tariff, in effect at that time?

20 MR. McRUER: No, my lord, but I will deal with it in a moment.

THE COMMISSIONER: What are you dealing with now?

MR. McRUER: I have a reference to it as well.

25 THE COMMISSIONER: What has this reference to?

MR. McRUER: This has reference to section 498 of the Criminal Code. It was introduced first into parliament in 1888, but did not become law until 1889, and it arose out of a special committee of parliament that was appointed for the purpose of investigating combines in Canada at that time. It is interesting

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EXHIBIT A

— in connection with the case of —

EXHIBIT A AT MR. MORTIMER, K.C. (Respondent):

I referred this morning, my lord, to the provisions of section 488 of the Criminal Code and the provisions of the Customs Tariff in respect to combined and combinations in restraint of trade, and I stated that when the sections were introduced into parliament, especially the provisions in the Criminal Code, they were expressly referred to as protection to the consumer in a country where there was a protective tariff. I have here a reference to Hansard,

February 28, 1886.

THE COMMISSIONER: Was this provision, which is now section IV of the Customs Tariff, in effect at that time?

MR. MORTIMER: No, my lord, but I will deal with it in a moment.

THE COMMISSIONER: What are you dealing with

MR. MORTIMER: I have a reference to it as well. THE COMMISSIONER: What has this reference to? MR. MORTIMER: This has reference to section 488

of the Criminal Code. It was introduced that into parliament in 1886, but did not become law until 1889, and it arose out of a special committee of parliament that was appointed for the purpose of investigating the state of Canada at that time. It is interesting

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to make one or two references to Harbord of February 29, 1888, pages 28 to 36. Mr. Edgar was speaking:

" I didn't say the Herald; I would not venture to quote the language of that organ of public opinion ..."

I do not know what Herald that was.

MR. KEILLOCK: The Herald of Montreal.

MR. McNUER:

"...the Herald, when the hon. member for Northumberland (Mr. Mitchell) is here himself. However, I would like to read to the house a short article from the Montreal Daily Star ..."

Now this will be all right.

"...published on the 14th instant, on this subject, and I would commend it to the attention of my hon. friends opposite. It is headed, 'The Combines,' and is as follows:

'The question of the suppression of 'the combines' is not merely a question of the whole nation paying a cent or two a pound more for its sugar than it need pay. It is the growth of the 'combine' system that we have to fear. The rapid development of the trade trusts in the United States and the financial success of the trusts in Canada is alarming. Soon every article, the manufacture of which requires the investment of large capital, will be controlled by a trust in the United States, and the spectacle of

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to make one or two references to members of February
22, 1933, pages 28 to 30, Mr. Nagan was speaking:

"I didn't say the Herald; I would not venture
to quote the language of that organ of public
opinion..."

I do not know what Herald that was.

MR. KILBUCK: The Herald of Montreal.

MR. NAGAN:

"...the Herald, when the hon. member for Montserrat
parlant (Mr. Mitchell) is here himself. However,
I would like to read to the house a short article
from the Montreal Daily Star..."

Now this will be all right.

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combine, is not merely a question of the

whole nation paying a cent or two a pound

more for its sugar than it needs pay. It is

the growth of the combine, system that we

have to fear. The rapid development of the

trade trusts in the United States and the

financial success of the trusts in Germany is

alarming. Soon every article, the manufacture

of which requires the investment of large

capital, will be controlled by a trust in

the United States, and the agencies of

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5 " Canadian commercial corporations earning
more than the amount of their whole capital
in a single year must prove very tempting to
those manufacturers in Canada who have not yet
formed 'combines'. The abolition of the pro-
10 tective duties on the articles controlled by
the Canadian 'combines' at the earliest poss-
ible day has become an imperative necessity.
The friends of the National Policy must see
that this is necessary. The only possible
alternative is free trade; and of the two evils,
free trade or 'combines' protected at the ex-
15 pense of the nation, we prefer free trade. We
believe that under the peculiar conditions
which prevail in Canada protection is absolut-
ely necessary to the development of the
country --'".

And Mr. Edgar says :

20 "So you see this is a protectionist organ."

And the quotation then goes on:

25 "'--but protection for the benefit of 'combines',
protection to make wealthy monopolists more
wealthy is impossible in a free country. While
'combines' are protected the National Policy is
in danger."

30 I am indebted to the Montreal Star of 1888 for quot-
ing something that I have attempted to put in my
brief, but saying it in much stronger language.

Then I want to refer to a statement of

1870

Similar conditions in other countries

more than the amount of their whole output
in a single year must prove very tempting to
these manufacturers in Canada who have not yet
formed 'combinations'. The abolition of the pro-
tective duties on the articles controlled by
the Canadian 'combinations' at the earliest poss-
ible day has become an imperative necessity.
The friends of the National Policy must see
that this is necessary. The only possible
alternative is free trade; and of the two evils,
free trade or 'combinations' protected at the ex-
pense of the nation, we prefer free trade. We
believe that under the present conditions
which prevail in Canada protection is abso-
lutely necessary to the development of the
country --".

"So you see this is a protectionist organ."

And the quotation then goes on:

"...but protection for the benefit of 'combinations'."

wealthy is impossible in a free country. While
'combinations' are protected the National Policy is
in danger."

I am indebted to the Montreal Star of 1888 for quot-
ing something that I have attempted to put in my
brief, but saying it in much stronger language.
Then I want to refer to a statement of

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Sir Richard Cartwright on May 18, 1888:

" I think it is tolerably clear that the House cannot proceed further with this bill, and I am inclined to believe that service has been rendered by this committee in calling the attention of the country to the natural fruits of the absurd system of protection under which we are at present living. A great deal of good will be done in the way of opening the minds of the people to see what comes of delivering the power of taxation to a few favoured individuals at the expense of the general benefit of the community, and therefore I am inclined with the First Minister in thinking that good will come of this. That, however, I think, will be the only good that will come of it. "

THE COMMISSIONER: What page is that?

MR. McRUER: That is on the 18th May, 1888, at pages 1544 to 1546. What I am reading from is a copy. It is at page 1545.

Then we come to the introduction of the provisions in the Customs Act that I have just referred to. Those were first introduced into parliament in 1897 by the Minister of Finance, - that would be the Hon. W.S. Fielding, I think.

THE COMMISSIONER: Yes.

MR. McRUER: At page 1125 of Hansard, 22nd April, 1897.

1887

Mr. Richard Gertwyl on May 18, 1888:

" I think it is tolerably clear that the House

cannot present further with this bill, and I

am inclined to believe that service has been

rendered by this committee in calling the

attention of the country to the natural fruits

of the absurd system of protection under which

we are at present living. A great deal of good

will be done in the way of opening the minds of

the people to see what comes of believing the

power of taxation to a few favoured individuals

at the expense of the general benefit of the

community, and therefore I am inclined with the

first Minister in thinking that good will come

of this. That, however, I think, will be the

only good that will come of it. "

THE CHAMBERLAIN: What page is that?

MR. ROBERT: That is on the 18th May, 1888, at

pages 1844 to 1846. What I am reading from is a copy.

It is at page 1845.

Then we come to the introduction of the pro-

visions in the Customs Act that I have just referred

to. Those were first introduced into Parliament in

1887 by the Minister of Finance, - that would be the

Hon. W.S. Fielding, I think.

THE CHAMBERLAIN: Yes.

MR. ROBERT: AT THE END OF THE DAY, 1888.

END, 1887.

5 " The Liberal platform from which I read an extract tonight declared that a protective tariff had fostered ~~not~~ monopolies, trusts and combines. Those combines, I am afraid, have not wholly been destroyed, and I think there are some of them in Canada now, and I propose to give them a certain notice that they may govern themselves accordingly. Therefore we propose a resolution which we hope will be useful.

10 I know how difficult it is to reach the combines. I know how ingenious they are, and there is the barest possibility that they will be able to climb over this resolution."

15 I am afraid our experience of this investigation indicates that they not only climbed over it but hurdled it completely, without ever coming near it.

20 " But that is no reason why we should not make an effort to deal with what is regarded as a great evil in the community; and I propose this resolution."

The resolution proposed was:

25 " That whenever it shall appear to the satisfaction of the Governor in Council that as respects any article of commerce there exists any trust, combination, association, or agreement of any kind among the manufacturers of such article or the dealers therein, or any portion of them, to enhance the price of such

30 article or in any other way unduly promote

"The Liberal Platform from which I read an ex-
tract tonight declared that a protective tariff
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hurled it completely, without even coming near it.
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an effort to deal with what is regarded as a
great evil in the community; and I propose
that whenever it shall appear to the satis-
faction of the Governor in Council that a
any trust, combination, association, or other
and article or the dealers therein, or any
portion of them, or any part of them

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5 " the advantage of such manufacturers or dealers
at the expense of the consumers, and that such
disadvantage to the consumers is facilitated
by the Customs duty~~s~~ imposed on^a like articles
when imported, then the Governor in Council
shall place such article on the free list or so
reduce the duty on it as to give to the public
the benefits of reasonable competition on such
10 articles."

THE COMMISSIONER: That is not the present law.

15 MR. McRUER: It is not, and I am not sure that
it was in that form when finally adopted. That is
the resolution introducing it into the house, and it
was debated at some length. On June 2, 1897, at page
3246 of Hansard, the section that was then section 17
was considered by the committee, and it read as
follows:-

20 " That whenever the Governor in Council has
reason to believe that as respects any article
of commerce there exists any trust, combination,
association or agreement of any kind among the
manufacturers of such article, or the dealers
therein, or any number of them, to enhance the
25 price of such article or in any other way to
unduly promote the advantage of such manu-
facturers or dealers at the expense of the con-
sumers, the Governor in Council may commission
30 or empower any judge of the Supreme Court or

"the advantage of such manufacturers or dealers at the expense of the consumers, and that such disadvantage to the consumers is facilitated by the Customs duties imposed on like articles when imported, then the Governor in Council shall place such article on the free list or so reduce the duty on it as to give to the public the benefit of reasonable competition on such

articles.

THE COMMISSIONER: That is not the present law.
MR. MEMBER: It is not, and I am not sure that it was in that form when finally adopted. That is the resolution I introduced it into the house, and it was debated at some length. On June 2, 1897, at page 3246 of Hansard, the motion that was then motion 17 was considered by the committee, and it read as

follows:-

"That whenever the Governor in Council has reason to believe that as respects any article of commerce there exists any tariff, combination, association or agreement of any kind among the manufacturers of such article, or the dealers therein, or any number of them, to enhance the price of such article or in any other way to unduly promote the advantage of such manufacturers or dealers at the expense of the consumers, the Governor in Council may and shall or empower any Judge of the Supreme Court or

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5 Exchequer Court of Canada, or of any supreme
court or high court in any province of Canada,
to enquire in a summary way into and report to
the Governor in Council whether such trust,
combination, association or agreement exists;
with power to such judge to compel the attendance
of witnesses and examine the same under oath, to
require the production of books and papers, and
10 with such other necessary powers as may be con-
ferred upon him by the Governor in Council for
the purposes of such enquiry, and if such judge
reports that such trust, combination, associa-
tion or agreement exists, and if it appears to
15 ~~that~~ the Governor in Council that such disad-
vantage to the consumers is facilitated by the
Customs duty imposed on a like article when im-
ported, then the Governor in Council may place
such article on the free list, or so reduce the
20 duty upon it, as to give to the public the
benefit of reasonable competition in such
article."

That comes down pretty much to the Act as it
is now.

25 THE COMMISSIONER: No, but of course that
provides for an enquiry.

MR. McRUER: Yes, my lord.

THE COMMISSIONER: The Customs Act now does
30 not provide for an enquiry. It simply says the
Governor may do this. Of course you have the

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Expedient Court of Canada, or of any supreme
court or high court in any province of Canada,
to exercise in a summary way into and report to
the Governor in Council whether such court,
with power to such judge to compel the attendance
of witnesses and examine the same under oath, to
require the production of books and papers, and
with such other necessary powers as may be con-
ferred upon him by the Governor in Council for
the purposes of such enquiry, and if such judge
reports that such trust, combination, associa-
tion or agreement exists, and if it appears to
that the Governor in Council that such disad-
vantage to the consumers is facilitated by the
customs duty imposed on a like article when im-
ported, then the Governor in Council may place
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That comes down pretty much to the Act as it

THE COMMISSIONER: No, but of course that
provided for an enquiry.
GOVERNOR: Yes, but not.
THE COMMISSIONER: Yes, but not.
GOVERNOR: Yes, but not.
GOVERNOR: Yes, but not.

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Combines Act which does provide for an enquiry. But under section 17 of the Customs Act, as it is now, provision is simply made for the Governor in Council --

5 MR. McRUER: I am referring to section 15.

Under section 15, as it is now, of the Customs Tariff Act --

THE COMMISSIONER: Have you set out section 15?

10 MR. McRUER: Yes, at page 291. That is the one I am dealing with.

THE COMMISSIONER: Oh, I was looking at page 292. That is the Customs Act. I thought that was the Combines Act.

15 MR. McRUER: That is the Customs Tariff Act. It appears in that form in the Customs Act and in another form in the Combines Act.

THE COMMISSIONER: Where is the Customs Act? Page 292 refers to the Customs Tariff Act.

20 MR. McRUER: It is the Customs Act that I was referring to. Then we come to section 29 of the Combines Act, which really imports into the Combines Act specifically the provisions of section 15 of the Customs Act, but extends the power to the Governor in Council when in an investigation under the Combines Act these things are disclosed. The Tariff Board Act also has a provision under which the Tariff Board may be empowered to make an investigation.

25 THE COMMISSIONER: Yes, but that simply adds the Board to the other authorities --

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Combines Act which does provide for an enquiry. But
under section IV of the Customs Act, as it is now,
provision is simply made for the Governor in Council
under section 15, I am referring to section 15.
Under section 15, as it is now, of the Customs Tariff
Act --
THE COMMISSIONER: Have you set out section 15?
MR. MEYER: Yes, at page 221. That is the one
I am dealing with.
THE COMMISSIONER: Oh, I was looking at page 222.
That is the Customs Act. I thought that was the
Customs Act.
MR. MEYER: That is the Customs Tariff Act. It
appears in that form in the Customs Act and in another
form in the Combines Act.
THE COMMISSIONER: Where is the Customs Act?
Page 222 refers to the Customs Tariff Act.
MR. MEYER: It is the Customs Act that I was
referring to. Then we come to section 23 of the
Combines Act, which really refers into the Combines
Act specifically the provisions of section 15 of the
Customs Act, but extends the power to the Governor in
Council when in an investigation under the Combines
Act those things are disclosed. The Tariff Board may
be empowered to make an investigation.
THE COMMISSIONER: Yes, but that simply gives the
Board to the other authorities --

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MR. McRUER: Yes that adds the Board to the other authorities that --

THE COMMISSIONER: --that may be commissioned by the government to investigate it.

5 MR. McRUER: Then under section 17 of the Customs Tariff Act the Governor in Council may, in any case where producers of goods are taking advantage of the duty imposed under the Act to increase the price of such goods to the consumer or using the duty to main-
10 tain prices at levels deemed by the Governor in Council to be higher than should prevail having regard to the general economic condition in the country, reduce or remove such duty.

15 THE COMMISSIONER: That is summary. That does not require any special sort of investigation at all.

MR. McRUER: No, it does not require anything at all of a special nature. They can act in a summary way there.

20 THE COMMISSIONER: Then under subsection 2 it may, instead of removing or reducing the duty, impose an excise duty --

MR. McRUER: Yes, my lord.

25 THE COMMISSIONER: --on the goods of any particular manufacturer or dealer.

MR. McRUER: When the Combines Act went to the Privy Council on an appeal from the judgment of the Supreme Court on a reference to the Supreme Court, Lord Atkin in his judgment made special reference to
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MR. McHUGH: Yes that side the Board to the

other authorities that --

THE COMMISSIONER: --that may be commissioned

by the Government to investigate it.

MR. McHUGH: Then under section 17 of the Customs

Tariff Act the Governor in Council may, in any case
where producers of goods are taking advantage of the
duty imposed under the Act to increase the price of
such goods to the consumer or using the duty to main-
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Council to be higher than should prevail having re-
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reduce or remove such duty.

THE COMMISSIONER: That is summary. That does
not require any special sort of investigation at
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MR. McHUGH: No, it does not require anything at
all of a special nature. They can act in a summary
way there.

THE COMMISSIONER: Then under subsection 2 it
may, instead of removing or reducing the duty, impose
an excise duty --

MR. McHUGH: Yes, by law.

THE COMMISSIONER: --on the goods of any parti-
cular manufacturer or dealer.

MR. McHUGH: When the Commission has went to the
Privy Council on an appeal from the judgment of the
Supreme Court on a reference to the Supreme Court,
and Atkin in his judgment made special reference to

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the need of such legislation as this where there is a protective tariff. One paragraph in his judgment is as follows:

5 " It is, however, not enough for parliament to rely solely on powers to legislate as to the criminal law for support of the whole Act. The remedies given under sections 29 and 30 reducing customs duties and revoking patents
10 have no necessary connection with ^{the} criminal law but must be justified on other grounds. Their lordships have no doubt that they can both be supported as being reasonably ancillary to the powers given respectively under 91 (3) and affirmed by section 122, the raising of
15 money by any mode or system of taxation, and under 91(22), patents of invention and discovery." This is the part I refer to particularly.

20 "It is unfortunately beyond dispute that in a country where a general protective tariff exists, persons may be found to take advantage of the protection and within its walls form combinations that may work to the public disadvantage. It is an elementary point of self preservation
25 that the legislature which creates the protection ..."

THE COMMISSIONER: It says "legislation" here.

MR. McRUER: I have it here in the judgment,

30 "legislature" --

the need of such legislation as this where there is
a protective tariff. One paragraph in his judgment
is as follows:

"It is, however, not enough for Parliament to
rely solely on powers to be placed as to the
criminal law for support of the whole act.

The remedies given under sections 82 and 83

are not sufficient to support the whole act.

have no necessary connection with ^{the} criminal

law but must be justified on other grounds.

Their Lordships have no doubt that they can

both be supported as being reasonably ancillary

to the powers given respectively under 81 (4)

and affirmed by section 122, the raising of

money by any mode or system of taxation, and

under 81(23), patents of invention and discovery.

This is the part I refer to verbally.

"It is unfortunately beyond dispute that in a

country where a general protective tariff exists,

the tariff is a necessary condition of the

protection and within its walls form conditions

from that may work to the public disadvantage.

It is an elementary point of self preservation

that the legislature which creates the

tariff is not bound to

the tariff is not bound to

MR. ROBERTSON: I have it here in the judgment.

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"...should arm the executives with powers of withdrawing or relaxing the protection if abused. The same reasoning applies to grants of monopolies under a system of patents."

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My friend, in his factum --

THE COMMISSIONER: Which one of your friends?

MR. McRUER: Mr. Kellock, - has quoted from some English cases in regard to what interpretation ought to be put on legislation of this kind.

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THE COMMISSIONER: Where is that?

MR. McRUER: I propose to refer to them a bit later.

MR. KELLOCK: Section H, my lord, page 8.

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MR. McRUER: Page 7 and page 8. My friend quotes from the Electro Lytic case and from the Adelaide Steamship case, both of which are very familiar; but it has been repeatedly stated in the Canadian cases that the English cases cannot be taken as authority because they have not got the Canadian statutes in effect in England, that there is no statute of the nature of the Combines Act and no statute of the nature of the Criminal Code.

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MR. KELLOCK: The Adelaide Steamship case is not an English case. I have just said that with regard to the Electro Lytic case.

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MR. McRUER: Please! The Adelaide Steamship case is not an English case; we know that perfectly well; it is an Australian case, and the whole point turned on the word "intent" in the Australian Act.

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"...should give the executives with powers of
withdrawing or relaxing the protection if abused.
The same reasoning applies to grants of monopolies
under a system of patents."

My friend, in his terms --

THE COMMISSIONER: Which one of your friends?
MR. McLEOD: Mr. Kellogg, - has quoted from some

to be put on legislation of this kind.

THE COMMISSIONER: There is that?

MR. McLEOD: I propose to refer to them a little

later.

MR. KELLOGG: Section H, my friend, page 8.

MR. McLEOD: Page 7 and page 8. My friend quotes

from the Electro-Lytic case and from the Adelaide
Steamship case, both of which are very familiar; but
it has been repeatedly stated in the Canadian cases
that the English cases cannot be taken as authority
because they have not got the Canadian statute in
fact in England, that there is no statute of the
nature of the Dominion Act and no statute of the
nature of the Criminal Code.

MR. KELLOGG: The Adelaide Steamship case is

not an English case. I have just said that with

regard to the Electro-Lytic case.

MR. McLEOD: The Adelaide Steamship
case is not an English case, as my friend says;
it is an Australian case, and the whole point
on the word "intent" in the Australian Act.

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The Australian Act had that it must be intended to have these effects, and they said they had not shown that it was intended to do that.

5 THE COMMISSIONER: Is that the case arising out of coal mines?

10 MR. McRUER: Yes, the coal case. But we are on safer ground if we stay with our own supreme court in the interpretation of our own statutes where those statutes have not been before the Privy Council except on a reference. At page 293 of my brief I quote from "Weidman v. Sharagge. Weidman v. Sharagge went to the Supreme Court of Canada from the Court of Appeal of the Province of Manitoba, and it is the authority on the interpretation of section 498 of the Criminal Code. It was a civil case but has since been referred to in a criminal case which I shall mention in a moment as being the law in respect to section 498 of the Criminal Code. The

15 Chief Justice said, at page 4:

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" It is not necessary, I repeat, that the agreement should be in itself fraudulent or otherwise illegal; and all agreements which prevent or lessen competition today come within the operation of the statute. "

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MR. KELLOCK: There is a misprint there. "Today" should be "do not". "All agreements which prevent or lessen competition do not come within the operation of the statute."

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The Australian had had that it must be intended to
have these effects, and they said they had not
shown that it was intended to be that.

THE COMMISSIONER: Is that the case arising out
of coal mines?

MR. NORMAN: Yes, the coal case. But we are on
after ground if we stay with our own Supreme Court
in the interpretation of our own statutes here.

Those statutes have not been before the Privy Council
except on a reference. At page 293 of my brief I
quote from *Reidman v. Shorridge*.

Went to the Supreme Court of Canada from the Court
of Appeal of the Province of Manitoba, and it is the
authority on the interpretation of section 496 of

the Criminal Code. It was a civil case but has
since been referred to in a criminal case which I
shall mention in a moment as being the law in res-

pect to section 496 of the Criminal Code. The

Chief Justice said, at page 4:

"It is not necessary, I repeat, that the word
ment should be in itself fraudulent or otherwise

illegal; and all agreements which prevent or
lessen competition today come within the opera-

tion of the statute."

THE COMMISSIONER: I am sorry to hear that.

"Today" should be "to-morrow". All agreements which
prevent or lessen competition do not come within the

operation of the statute."

THE COMMISSIONER: It is a curious misprint.

MR. KELLOCK: Changes the sense.

MR. McRUER:

5 "The mischief aimed at is the undue and abusive
lessening of competition which operates to the
oppression of individuals or injuriously to
the public generally and it is for the courts
to say whether in the circumstances of each
10 particular case the mischief aimed at exists.

Parliament has not sought to regulate the
prices of commodities to the consumer, but it
is the policy of the law to encourage trade
and commerce, and parliament has declared
15 illegal all agreements and combinations
entered into for the purpose of limiting the
activities of individuals for the promotion
of trade and preventing or lessening unduly
the competition which is the life of trade
20 and the only effective regulator of prices
is prohibited."

I emphasize again that this is dealing with
section 498 of the Criminal Code, which is very
different from and much less drastic than the Combines
25 Act. Mr. Justice Idington, at page 21, makes
special reference to the relation of tariff laws and
the legislation:

30 "It may be asked how can prevention or lessening
of competition or attempt thereof be an evil
when the fact confronts us that the whole

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THE COMMISSIONER: It is a further remark.

MR. JUSTICE: I am sorry to hear that.

MR. JUSTICE:

"The mischief aimed at is the undue and exclusive
lessening of competition which operates to the
oppression of individuals or injuriously to
the public generally and it is for the courts
to say whether in the circumstances of each
particular case the mischief aimed at exists.
Parliament has not sought to regulate the
prices of commodities to the consumer, but it
is the policy of the law to encourage trade
and commerce, and Parliament has declared
illegal all agreements and combinations
entered into for the purpose of limiting the
activities of individuals for the promotion
of trade and preventing or lessening unduly
the competition which is the life of trade
and the only effective regulation of prices
is prohibited."

I emphasize again that this is dealing with
section 498 of the Criminal Code, which is very

different from any other law in the country.

MR. JUSTICE: I am sorry to hear that.

special reference to the relation of tariff laws and
the legislation:

"It may be asked how can prevention or lessening

of competition be secured by any law?

It is not possible to do so by any law.

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business fabric of Canada is founded on a restraint of competition? It may be said in face of such fact it is impossible to assign an evil motive or a vicious purpose of any kind in merely contracting to prevent or lessen competition. It may well be indeed that the one is the logical sequence of the other by force of the development thereof or the activities induced thereby yet be unjustifiable for those enjoying the benefits of these restrictions to abuse the power thereby given them."

And again, at page 28:

THE COMMISSIONER: When he says that the fact confronts us that the whole business fabric of Canada is founded upon restraint of competition, has he reference to the Customs Tariff?

MR. McRUER: Oh, yes, I think so. And at page 28 Mr. Justice Idington states:

" To apply the standard of profit that might enable the stupid, the slothful, the ignorant, the over-capitalized man working with antiquated machinery and a mill or warehouse over-manned, to compete with the standard that may be fairly reached by men of brains, of energy, of sleepless vigilance, with only adequate capital to earn dividends for, and all the advantage that the latest improvement, invention or discovery can furnish, would be a sorry one indeed for society".

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trict of competition? It may be said in face

of such fact it is impossible to assign an
evil motive or a vicious purpose of any kind
in merely contracting to prevent or lessen

competition. It may well be indeed that the
one in the logical sequence of the other by

the fact of the restriction itself is the result-

the increased thereby yet be unjustifiable for
those enjoying the benefits of these restric-
tions to abuse the power thereby given them.

and again, at page 22:

THE OBSERVATION: when he says that the fact

portions as that the whole business fabric of Canada

is founded upon restriction of competition, has he

reference to the Customs Tariff?

MR. MONTGOMERY: Oh, yes, I think so. And at page

22 Mr. Justice Lacombe states:

To apply the standard of profit that might

enable the stupid, the selfish, the ignorant,

the over-specialized man working with antiquated

methods will still be successful in business.

to compete with the standard that may be fairly

reached by men of brains, of energy, of enterprise

and, with only adequate capital to earn

it. It is for all the world as if the

business of the world were to be divided into

two parts, one for the few and one for the many.

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Now that case is referred to particularly in another case which I have not quoted in my factum; a quite recent one, Stinson Reeb Builders Supply Company versus The King. The report I have is in 3 D.L.R., 1929 at page 331. At page 334 reference is made to the Weidman Sharagge case, and at the foot of page 333:

" These provisions, and more especially section 498, were construed by this court in Weidman v. Sharagge --"

THE COMMISSIONER: Is this the Supreme Court case?

MR. McRUER: The Supreme Court of Canada --

" ...which, although not a criminal case, is authority with regard to their meaning".

I quote what was stated by Duff J. :

" I have no hesitation in holding that as a rule an agreement having for one of its direct and governing objects the establishment of a virtual monopoly in a trade in an important article of commerce throughout a considerable extent of territory by suppressing competition in that trade comes under the ban of the enactment."

And Anglin J., as he then was, now Chief Justice, discussing the meaning of the expression "unduly":

" The prime question certainly must be, does it, the agreement, alleged to be obnoxious to section 498, however advantageous or even necessary for the protection of the business interests of the parties, impose improper, inordinate, excessive or oppressive restrictions

Now that case is referred to particularly in

another case which I have not noted in my footnot; a
quite recent one, Stinson Reap Millers Quinly Company
versus The King. The report I have is in S.D.R., 117
at page 381. At page 384 reference is made to the
Weidman Shapage case, and at the foot of page 383:

" These provisions, and more especially section
498, were considered by this court in Weidman

THE COMMISSIONER: Is this the Supreme Court case?
-- Mr. McRae: The Supreme Court of Canada --
"... which, although not a criminal case, is
authoritative with regard to their meaning."

I quote what was stated by Lord J. :
" I have no hesitation in holding that as a rule
an agreement having for one of its objects and
government objects the establishment of a virtual
monopoly in a trade in an important article of
commerce throughout a considerable extent of
territory by suppressing competition in that
trade comes under the ban of the enactment."

And again J., as he then was, now Chief Justice,
discussing the meaning of the expression "unduly":
" The prime question certainly must be, was
it, the agreement, alleged to be conspiratorial,
to section 498, however advantageous or even
necessary for the protection of the business
interests of the parties, impose improper,

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"upon that competition the benefit of which is the right of everyone?"

And Mr. Justice Mignault goes on:

5 " In view of this statement of the rule it will be unnecessary to refer to any English cases on which the appellants rely. What we have to determine is whether there is evidence bringing this case within the statute. "

10 And at page 335:

" It may be emphasized here that the advantage thus obtained by the manufacturers and the dealers of the association is not the proper test. What is the true test was laid down by this court in Weidman v. Sharagge as above stated. Injury to the public or hindering or suppressing of free competition, notwithstanding any advantage which may accrue to the business interests of the members of the combine, is what brings an agreement or a combination under the ban of section 498."

25 That is section 498 of the Criminal Code. One more reference and I am through with the law in respect to it, and that is to the judgment of Mr. Justice Clute in Wampole v. Karn, in 11 O.L.R., referred to at page 294 of my brief. The history of the law, he says;

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upon that competition the benefit of which is
the fact of competition.
And Mr. Justice Macgill says in:
"In view of this statement of the rule it will
be unnecessary to refer to any English cases
on which the appellants rely. What we have
to determine is whether there is evidence
bringing this case within the statute."
The fact that the appellants have obtained
the benefit of the association is not the
proper test. What is the true test was laid
down by this court in *Weisman v. Shorrock* as
above stated. Injury to the public or
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That is section 408 of the Criminal Code. One more
reference and I am through with the law in respect
to it, and that is to the judgment of Mr. Justice
Gibson in *Wapole v. Kahn*, in 11 O.L.R., referred
to at page 294 of my brief. The history of the law

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5 "...shows that it was passed at a time when the
law relating to the protection of native indus-
try was being introduced. As an objection to
the protective tariff, it was argued that
combinations might be formed which would destroy
competition and so enhance the price; that while
upon the one hand foreign goods were excluded,
10 the introduction of which might moderate the
price of the article in question, upon the other
hand, trade combinations might be formed which
would destroy competition and greatly raise the
price of the commodity to the consumers. To
15 meet that objection, the law against restraint
of trade was passed."

That is Mr. Justice Clute's summary of the pur-
poses more or less of the law, though it applies to
any combinations, whether of industries that are
20 protected or not. But that is section 498 of the
Criminal Code. On top of that we have the Combines
Investigation Act, which goes further, and that is
that it makes monopolies, mergers, come under the
ban of the Act.

25 THE COMMISSIONER: When? It brings mergers
under the ban of the Act in what case? Under what
conditions?

MR. McRUER: When they operate or are likely to
operate to the detriment of the public. And it
30 brings the agreements in regard to price, agreements

"...shows that it was passed at a time when the law relating to the protection of native industry was being introduced. As an objection to the protective tariff, it was argued that combinations might be formed which would destroy competition and so enhance the price; that while upon the one hand foreign goods were excluded, the introduction of which might moderate the price of the article in question, upon the other hand, trade combinations might be formed which would destroy competition and greatly raise the price of the commodity to the consumer. To meet that objection, the law against restraint of trade was passed."

That is Mr. Justice Gies's summary of the purpose more or less of the law, though it applies to any combinations, whether of industries that are protected or not. But that is section 408 of the Criminal Code. On top of that we have the Combines Investigation Act, which goes further, and that is that it makes monopolies, mergers, come under the ban of the Act.

THE COMMISSIONER: When it brings mergers under the ban of the Act in what cases? Under what conditions?

MR. McNEIL: When they operate or are likely to operate to the detriment of the public. And it is the Commission's duty to bring to the attention of the public.

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5 to restrict or lessen competition, agreements in
restraint of trade, that have operated or are likely
to operate to the detriment of the public, and ~~it~~ so
where we find under a protective tariff there is an
agreement to lessen competition, so that the public
are in the hands of the people agreeing, then there
is certainly pretty cogent evidence that they have an
agreement that is likely to operate to the detriment
10 of the public, because what other purpose have they
got in agreeing then to restrain the competition so
that they may raise prices to the public?

Of course I am not going to deal exhaustively
with the evidence that has been placed before the
15 commission with respect to various agreements that
have been entered into by different branches of this
industry, and the evidence of monopoly, for the
reason, of course, that I suggest to your lordship
the course that should be taken in regard to that
20 volume of evidence that has been placed before the
commission, that it should be referred to the proper
officer of the Dominion government whose duty it is
to investigate and report, to the proper authorities,
whether these combines are of the sort that are
25 contrary to law. I do not ask your lordship on the
evidence that we have here to come to a conclusion
one way or the other, except as your lordship may
feel in regard to the evidence, but only to determine
that there is evidence of that character that ought
30 to be thoroughly and completely investigated by the

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proper authority.

THE COMMISSIONER: What you mean is that I should make such a recommendation to the government?

5 MR. McRUER: Yes, my lord, that our lordship should make a recommendation to the government that action be taken. I ask that specifically at the conclusion of this chapter.

THE COMMISSIONER: Oh, that is in your brief?

10 MR. McRUER: That is in my brief. I put it in that way for this reason, that if we had investigated all these different trade agreements that appear, down to their conclusion, it would have carried our commission on for some months. There is a volume of
15 correspondence filed now with the commission to which I am not referring in detail to support the contention that these agreements are of that sort, are of the illegal sort, because we have to limit our enquiry some place at any rate. Some people
20 think I cannot limit my argument, but I am doing the best I can under the circumstances.

THE COMMISSIONER: You think we should leave something for somebody else to do?

25 MR. McRUER: Yes. I am going to suggest that our commission does not cover the whole field, although we were not responsible for drawing the order-in-council that laid out our work, and we have to discard our duty under it as best we can.

30 I will just run hurriedly over what I have to say in reference to the different types of agreements

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MR. COMMISSIONER: What you mean is that I

should make such a recommendation to the Government?

MR. COMMISSIONER: Yes, that is in fact.

should make a recommendation to the Government that

action be taken. I ask that specifically as the

conclusion of this chapter.

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MR. COMMISSIONER: You think we should leave

something for somebody else to do?

MR. MORRIS: Yes. I am going to suggest that

our commission does not cover the whole field,

although we were not responsible for drawing the

order-in-council that laid out our work, and we have

to thank the Government for what we are doing.

I will just say briefly over what I have to

say in reference to the different types of agreements

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or monopolies that apparently exist. In the first place I refer to Canadian Celanese Limited. It is a clear example of monopoly. Nothing could be clearer, because there is no other body of manufacturer of acetate yarns in Canada. It has the benefit of a protective tariff, and I have set out the benefits they have. Certain representations were made to the Department of National Revenue that this company has denied supplies of yarn to the weavers in Canada. I submit the evidence shows that quite clearly, and I make some specific references to it.

THE COMMISSIONER: Where do you refer to that evidence?

MR. McRUER: At the foot of page 296. I am going on to deal with it. That is where the company denies having acted in that way, and then we render the proof of it. It is at the foot of page 297. The silk weavers evidently complained to the government that Canadian Celanese Limited were not supplying their needs in respect to cellulose acetate yarns. Complaints are referred to by the company and are enumerated as follows:

- " 1. We have not the facilities to supply the requirements of these weavers of Celanese yarn.
2. We have declined to sell such yarn to them.
3. We charge prohibitive prices for the yarn."

" In respect of these claims the company makes explicit denial. In regard to the claim that they do not supply yarn to the weavers at satis-

STATEMENT

or monopolies that presently exist. In the first place, I want to mention that in Canada, it is a clear example of monopoly. Nothing could be clearer because there is no other body of manufacturer of acetate yarns in Canada. It has the benefit of a protective tariff, and I have set out the benefits they have. Certain representations were made to the Department of Inland Revenue that this company has denied supplies of yarn to the weavers in Canada. I submit the evidence shows that quite clearly, and I make some specific references to it.

THE QUESTION: Where do you refer to that evidence?

MR. WOOD: At the foot of page 286. I am going on to deal with it. That is where the company denies having acted in that way, and then we read the rest of it. It is at the foot of page 287.

The silk weavers evidently complained to the government that Canadian Balance Limited were not supplying their needs in relation to acetate yarns.

Yarns. Complaints are referred to by the company and are summarized as follows:

- "1. We have not the facilities to supply the requirements of these weavers of Chinese yarn.
2. We have declined to sell such yarn to them.
3. We charge prohibitive prices for the yarn."

"In respect of these three points, the company has made an explicit denial. In regard to the claim that they do not supply yarn to the weavers at all-

factory prices, the company states:"

And I think the evidence clearly shows that these statements are not correct.

5 "That we have always been, and are ready and willing to supply the yarns to any Canadian fabricator who seriously intends and wishes to produce whole or mixed Celanese fabrics, at prices which do not, and will not, take undue advantage of the Customs Tariff protection."

10 They were willing to be a sort of shepherd of the weavers and they were willing to supply them with yarns if they were willing to weave them and not take advantage of the prices provided under the Customs
15 Tariff.

"Our prices will be fixed at a figure which will take into consideration the higher cost of production in Canada, due to the larger cost of labour compared with some countries, and much
20 greater production in all competing countries. These prices are obviously, and will be, graded according to quantity. The greater the quantity the lower is the price.

25 We recognize it is in our best interests to sell as much yarn as possible because the greater the production the lower the cost to produce, with consequent lower prices of fabrics and garments, which brings about greater public demand."

30

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these statements are not correct.

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willing to supply the yarns to any Canadian

fabricator who seriously intends and wishes to

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prices which do not, and will not, take undue

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That the witness is a man of integrity is

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Tariff.

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These prices are obviously, and will be, graded

according to quantity. The greater the quantity

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We recognize it is in our best interests to

sell as much yarn as possible because the

greater the production the lower the cost to

produce, with consequent lower prices of fabrics

and garments, which brings about greater public

demand."

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"The Company's contention is that quantities are a prime factor in fixing the price of yarns and state to the Prime Minister:

'We stand prepared to execute any bona fide contract for supplying reasonable quantities of our yarn to any Canadian weaver or knitter at fair or reasonable prices.'

"Mr. Watson of Grout's Limited evidently had been one who complained that he was unable to secure yarn. The company says in regard to that:

'If Mr. Watson, or any of his associates, is prepared to take a reasonably substantial quantity, with regular deliveries of our yarn per annum, or for any shorter fixed period he will have no difficulty in reaching an agreement with us, both as respects price and delivery'.

"The Company makes the following statement to the Prime Minister:

Page 14760 follows.

14723

"The Company's contention is that the price of

are a prime factor in fixing the price of

Yarns and state to the Prime Minister:

"We stand prepared to execute any bona fide

order for the supply of yarns

of our yarn to any Canadian weaver or spinner

at the same price as we sell to the

"Mr. Watson of Groat's Limited evidently had seen

one who complained that he was unable to secure

yarn. The company says in regard to that:

"If Mr. Watson, or any of his associates, is

prepared to take a reasonably substantial

quantity, with regular deliveries of our yarn

per annum, or for any shorter fixed period

he will have no difficulty in reaching an

agreement with us, both as respects price

and delivery."

The Company makes the following statement to the

Joint Committee:

JOINT COMMITTEE

" Today yarn is being laid down from France at dumping prices against which we cannot compete.

For instance, the French price is \$1.12 per pound for 150 denier, as compared with our quantity and regular delivery price of \$1.35 for 100 denier--"

THE COMMISSIONER: No, you didn't get the proper punctuation.

MR. McHUR: I beg your pardon.

THE COMMISSIONER: "Compared with our quantity and regular delivery price of \$1.35".

MR. McHUR: " For instance, the French price is \$1.12 per pound for 150 denier, as compared with our quantity and regular delivery price of \$1.35; for 100 denier the French price is \$1.20, as compared with the price at which we are prepared to sell of \$1.68 and the United States price of \$1.65'.

In respect to these statements to the Prime Minister, William McC. Cameron, Vice-President of the Canadian Company, was examined at page 10478. Mr. Cameron stated that no French yarn was sold in Canada at \$1.12 per pound. This, notwithstanding the fact that this Company was telling the Prime Minister that these French goods were being dumped in Canada at a price with which it was unable to compete. It is surely no excuse for a company enjoying the privileges that this Company enjoyed to take the attitude taken by counsel on its behalf --

'What I mean to say was the letter was being addressed to somebody who should be thoroughly familiar insofar as knowing what the situation was'."

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"Today yarn is being laid down from France at
dumping prices against which we cannot compete.
For instance, the French price is \$1.12 per pound
for 130 denier, as compared with our quantity and
regular delivery price of \$1.32 for 100 denier--
THE COMMISSIONER: No, you didn't get the proper

quantities.

MR. MORRIS: I beg your pardon.

THE COMMISSIONER: "Compared with our quantity and

MR. MORRIS: "For instance, the French price is
\$1.12 per pound for 130 denier, as compared with
our quantity and regular delivery price of \$1.32
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Canada at \$1.12 per pound. This, notwithstanding the

fact that this Company was telling the Prime Minister

that these French goods were being dumped in Canada

at a price with which it was unable to compete. It

is entirely no excuse for a company enjoying the

privileges that this Company enjoyed to take the

attitude taken by counsel on its behalf --

"I want to say that the latter was called in

to examine the evidence and to report thereon to the

Committee on Commerce and the situation was

It is pretty difficult for Mr. Bennett to just know what price yarn was being dumped of all the different types, and so on.

"In April, 1932, Canadian Cottons Limited, desired to buy cellulose acetate yarns for weaving purposes from this company and the correspondence contained in Exhibit 745 ensued. The price quoted for 100 denier cellulose acetate yarn, in hanks, was \$1.95 a pound and, for 150 denier, \$1.35 a pound".

THE COMMISSIONER: That means their own prices had gone up.

MR. MCROUER: Well, they quoted higher prices than they stated to Mr. Bennett they were willing to sell at.

THE COMMISSIONER: This is a little later. The statement made was in March, 1931, wasn't it?

MR. MCROUER: In the letter to Mr. Bennett.

THE COMMISSIONER: You do not give the date of the letter but you introduce this under date of March 10, 1931.

MR. MCROUER: Yes.

THE COMMISSIONER: And this quotation now is April, 1932.

MR. MCROUER: We find how yarns were selling in other countries just in a moment, my lord.

"These prices were for orders of not less than 5,000 pounds, to be taken at the rate of not less than 1,000 pounds weekly. Mr. Tolmie, the General Manager of Canadian Cottons, Limited, objected to these prices on the ground that Canadian Celanese Limited, was selling fabric woven from 100 denier

different types, and so on. know what price yarn was being dumped of all the It is pretty difficult for Mr. Bennett to find

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REV. JOHN W. YER.

THE COMMISSIONER AND THIS COURT IN APRIL

other countries just in a moment, my love.

Manager of Canadian Cotton, Limited, objected
than 1,000 pounds weekly. Mr. Tolmie, the General
2,000 pounds, to be taken at the rate of not less
"These prices were for orders of not less than

"yarns at a price of \$2.25 a pound".

That is, the woven fabric was at \$2.25.

5 "The filling yarn, in the proportion in which the
weft yarn was used in the fabric, if added to the
\$1.95 a pound, Mr. Tolmie contended, would bring
the average cost of the yarn in the fabric to
practically the same figure per pound as that at
which Canadian Celanese Limited were selling the
fabric".

10 That is, they were quoting to Canadian Cottons a price
for yarn that, when you take into question the filling
and so on, brought it up to the same price as Celanese
were selling the woven fabric for.

15 THE COMMISSIONER: That is \$2.25.

MR. McRUER: \$2.25; so what possible chance had
Canadian Cottons to buy that yarn and compete in the
Canadian market, but at the same time the tariff
protection prevented Canadian Cottons from going and
20 buying yarn in other countries and bringing it in at
a price at which they could fabricate goods to compete
with Canadian Celanese.

"It was pointed out in a letter to the Canadian
Celanese Limited, dated April 2nd"--

25 THE COMMISSIONER: Whose letter are you referring to?

MR. McRUER: That is Canadian Cottons, I think, my
lord. You might just get me out that exhibit, Mr.
Whitely, 745. I think it is all in that.

30 "--that 100 denier cellulose acetate yarn of
European manufacture could be landed at the
Canadian mills, with the full duty of 28 cents

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"yarns at a price of \$2.25 a pound."

That is, the woven fabric was at \$2.25.

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weft yarn was used in the fabric, it added to the

the average cost of the yarn in the fabric to

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for yarn that, when you take into question the filling
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MR. McRURR: \$2.25; so what possible chance had

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"It was pointed out in a letter to the Canadian
Colonies limited, dated April 2nd"--

THE COMMISSIONER: Whose letter are you referring to?

MR. McRURR: That is Canadian Cottons, I think.

lord. You might just get me out that exhibit, Mr.

whitely, 745. I think it is all in that.

--that 100 dealer sell those acetate yarn of

Canadian mills, with the full duty of 28 cents

"per pound paid and exchange added, at \$1.03 per pound".

Now that is that the 100 denier that \$1.95 was asked for could be landed at the Canadian mills paying 28 cents a pound duty at \$1.03 a pound so that at \$1.03 a pound the Canadian weaver, having to pay 28 cents a pound duty, still could not compete with Canadian Celanese on the fabric.

"It was also pointed out that on the price asked by Canadian Celanese Limited there was a spread of 60 cents per pound between the 100 denier and the 150 denier yarn"--

That is, the 150 was \$1.35 and the 100 denier was \$1.95.

"--while European producers offered 100 denier yarn at anywhere from 3 to 5 cents a pound higher than for the 150 denier".

It does seem that they were not trying to sell yarns to Mr. Tolmie when they were asking him 60 cents more for the 100 denier than they were for the 150 denier where the European manufacturers only had a differential of from 3 to 5 cents a pound.

" Mr. Tolmie testified at p. 10610 that he had had quotations at the time of this correspondence from W. B. Stewart and Sons, Canadian agents for the Rhodiaseta Company, the makers of the finest grade of French acetate yarns, as follows:

100 denier, \$1.06 per pound; 150 denier, \$1.02 per pound".

"per pound paid and exchange added, at \$1.00 per pound."

That is, the 150 was \$1.35 and the 100 Senior was

for the 100 dollar

It does seem that they were not trying to sell yarn to Mr. Tolmie when they were asking him 60 cents more for the 100 yards than they were for the 50 yards where the European manufacturers only had a difference of from 2 to 3 cents a pound.

Mr. Tolson testified at p. 10810 that he had had questions at the time of this conversation.

100 grams, \$1.00 per pound; 150 grams, \$1.50 per pound.

So your lordship will see that for the article that was selling in France for \$1.06 the weavers here were being asked \$1.95, and for the article that was selling at \$1.02 in France the weavers here were being asked \$1.35, and the same way in regard to the German yarns. 100 denier were \$1.09 and 150 denier \$1.02, and there were other quotations,

" Mr. Tolmie testified that the Canadian weavers could not use foreign yarns at the laid down costs and sell the finished fabric made from them at prices competitive with similar fabrics then being offered by Canadian Celanese Limited. It is apparent from this that the 28 cents a pound duty on these yarns gave to Canadian Celanese Limited a complete monopoly in respect to yarns and fabrics made from cellulose acetate."

That is, that the laid down cost with duty paid and transportation was such that they could not -- the weavers here could not weave the yarns and compete with the Canadian Celanese Company who had the very special advantage, not only of the tariff, but the fact that they were both spinners and weavers of these yarns. They did them all under the one heading.

" In a letter to the Minister of Finance on April 22nd, 1932, Mr. Tolmie stated:

'We have no hesitation in stating' "--

THE COMMISSIONER: What is the date?

MR. MORJER: April 22, 1932, the same exhibit, 745.

" We have no hesitation in stating that if the minimum duty of 28 cents per pound under tariff

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So your lordship will see that for the article that

was selling in France for \$1.06 the weavers here

were being asked \$1.95, and for the article that was

selling at \$1.02 in France the weavers here were being

asked \$1.35, and the same way in regard to the German

Yarns. 100 denier were \$1.02 and 100 denier \$1.02,

there were other questions.

" Mr. Tolmie testified that the Canadian weavers

could not use foreign yarns at the laid down cost

and sell the finished fabric made from them at

prices competitive with similar fabrics then being

offered by Canadian Celanese Limited. It is apparent

from this that the 38 cents a pound duty on these

Yarns was a prohibitive duty.

monopoly in respect to yarns and fabrics made from

cellulose acetate."

That is, that the laid down cost with duty paid and

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the Canadian Celanese Company who had the very special

advantage, not only of the tariff, but the fact that

they were both spinners and weavers of these yarns.

They did them all under the one heading.

" In a letter to the Minister of Finance on

April 22nd, 1932, Mr. Tolmie stated:

"We have no hesitation in stating that --"

THE COMMISSIONER: What is the duty?

MR. McLELLAN: April 22, 1932, the same exhibit, 740.

"We have no hesitation in stating that if the

minimum duty of 38 cents per pound under tariff

"item 558B were to be removed in the case of Acetate yarns imported by legitimate weavers, it would result in the employment of many hundreds of looms that are at present standing idle in Canadian mills".

So that gives something of an indication of the restriction on trade due to the monopoly that Canadian Celanese have.

THE COMMISSIONER: So far all this goes back though to five or six years ago.

MR. McRUER: Yes, my lord.

THE COMMISSIONER: Is that monopoly, according to the evidence, still being exercised?

MR. McRUER: Yes, my lord; we have their sales of yarn on record and they are practically nothing.

THE COMMISSIONER: What action, if any, did the Government take at that time?

MR. McRUER: No action, but the present government reduced the protection under the British Preference

but that really gives, as I understand it, the weavers no relief because when British yarns have been laid down here the price is such that they cannot weave them in competition with Canadian Celanese, and while Canadian Celanese's costs are confidential your lordship can look at them and see the spread they have got.

THE COMMISSIONER: What other remedy might be applied, then?

MR. McRUER: Lower the tariff on the intermediate and general items.

THE COMMISSIONER: So as to get these yarns in from elsewhere?

"If 3888 were to be removed in the case of
Acetate yarns imported by legitimate weavers, it
would result in the employment of many hundreds
of looms that are at present standing idle in
Canadian mills."

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So that gives something of an indication of the
restriction on trade due to the monopoly that Canadian
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THE COMMISSIONER: So far all this goes back then

to five or six years ago.

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MR. McWILLIAMS: Yes, my lord.

THE COMMISSIONER: Is that monopoly, according to

the evidence, still being exercised?

MR. McWILLIAMS: Yes, my lord; we have their sales of

yarn on record and they are practically nothing.

15

THE COMMISSIONER: What action, if any, did the

Government take at that time?

MR. McWILLIAMS: No action, but the present Government

reversed the protection under the British Preference

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but that really gives, as I understand it, the weavers

no relief because when British yarns have been laid

down here the price is such that they cannot weave

them in competition with Canadian Chinese, and while

Canadian Chinese's costs are considerably lower than

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can look at them and see the spread they have got.

THE COMMISSIONER: And other things might be

applied, then?

MR. McWILLIAMS: Lower the tariff on the intermediate

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and other things.

THE COMMISSIONER: Is that all that is to be done?

MR. McRUER: From elsewhere.

THE COMMISSIONER: What are the principal exporting countries?

MR. McRUER: Holland and Italy.

5 THE COMMISSIONER: They are both under the general tariff, are they?

MR. McRUER: No, they are under the intermediate; the 28 cents a pound still applies under these. Then, I go on in the brief to show the efforts that were made to get yarns by other companies. It was not only Canadian Cottons. There were others, and it went to the Tariff Board, an application was made to the Tariff Board and the matter was dealt with by the Tariff Board, and they made some findings and then there was a reduction under the British Preference.

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THE COMMISSIONER: There is nobody here representing this company?

MR. McRUER: No, my lord; Mr. Forsyth said he would reply in writing. I want to point out at page 304, my lord, of my brief that --

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"Since 1930, the Company has manufactured 19,023,166 pounds of yarn, 16,505 of which has been sold to others in Canada".

So that your lordship can see that the Canadian weavers could not get a domestic supply of yarn. They were trying to get it.

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THE COMMISSIONER: As a matter of fact, where are they getting it from?

MR. McRUER: They are not getting it. Whatever they import -- there is some comes from Great Britain

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MR. MORTIMER: Yes, sir.

THE COMMISSIONER: What are the principal export

countries?

MR. MORTIMER: Holland and Italy.

THE COMMISSIONER: They are both under the General

tariff, are they?

MR. MORTIMER: No, they are under the intermediate;

the 38 cents a pound still applies under these. Then,

I go on in the brief to show the efforts that were

made to get yarns by other companies. It was not only

Canadian Cottons. There were others, and it went to

the Tariff Board, an application was made to the

Tariff Board and the matter was dealt with by the

Tariff Board, and they made some findings and then

was a reduction under the British Preference.

THE COMMISSIONER: There is nobody here representing

this company?

MR. MORTIMER: No, my lord; Mr. Forsyth said he

would reply in writing. I want to point out a

page 304, my lord, of my brief that --

"Since 1850, the Company has manufactured

19,028,166 pounds of yarn, 16,505 of which has

been sold to others in Canada."

So that your lordship can see that the Canadian weavers

could not get a domestic supply of yarn. They were

trying to get it.

THE COMMISSIONER: As a matter of fact, where are

they getting it from?

MR. MORTIMER: They are not getting it. Whatever

they import -- there is some yarn from India and

now. We had the figures the other day of the acetate yarns, but they come in for filling and stripes and things like that, but the Canadian weaver is just not in a position --

5 THE COMMISSIONER: What is he using, viscose yarn?

MR. McRUER: Yes, viscose. They are not in a position to get the acetate yarns to compete with Canadian Celanese on the finished fabric, and the spread of profit that this company has, as is shown by the confidential statement that is filed, is one that they can take care of themselves yet a good bit before we reach the point that they are going to be injured by, or going to be ruined by competition from abroad. Then, we recollect the showing that has been made under this system of doing business, with the tremendously high executive salaries that we had when we were dealing with its affairs before, and with the very high return they have had over the last ten years.

15 Now, in regard to Courtaulds --

20 THE COMMISSIONER: Where do you deal with them?

MR. McRUER: At page 306, my lord.

THE COMMISSIONER: Well, shortly put, do you charge them with operating a monopoly?

25 MR. McRUER: Yes, my lord, just in the same way, and the protection that is given to them is such that after they got the protective tariff in 1930 the first thing they did was to raise the price to the Canadian weavers while they were dropping it in other countries, and we show a complete statement of the prices that were charged by Courtaulds comparative with the prices

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in a position --

MR. McRUE: Yes, my lord, just in the same way.

that were being charged both in Great Britain and in the United States, and that the parent company operating in these two countries dropped their prices in the United States and in Great Britain and raised them in Canada when they got the increased protection here. We have the record of their earnings--

THE COMMISSIONER: You say they dropped their prices in the United States?

MR. McRUER: In the United States and Great Britain just at the same time as they increased them here.

THE COMMISSIONER: You refer to that?

MR. McRUER: Yes, I refer to that in my brief, and there was a lot of contest over it. There were several of the knitting mills that wrote in to the Government about it, and I have quoted passages in the brief from the evidence that has been filed of the injury that this did to these mills, and, with the record that Courtaulds have got of earnings and the very very substantial tariff yet, tariff protection that they have on this raw material, I submit that action should be taken by the Government to open up the trade -- that a recommendation should be made that action should be taken to further lower the duties on these yarns so that trade may develop in the weaving of rayon yarns, and will give the Canadian weavers --

THE COMMISSIONER: You say to lower the duties further. The last lowering was under the British treaty.

MR. McRUER: Yes, under the British treaty, but

that the tariff on wool is not a tariff on wool.

the United States, and that the tariff on wool

operating in the United States and in Great Britain

prices in the United States and in Great Britain

raised them in Canada when they got the increased

protection here. We have the record of their earnings

THE COMMISSIONER: You say they dropped their

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MR. McNEIL: In the United States and Great Britain

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1908, and I have found that in the United States

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this did to those mills, and with the record that

Canada have got of earnings and the very very

essential tariff yet, tariff protection that they have

on this raw material, I submit that action should be

taken by the Government to lower the tariff -- that

a recommendation should be made that action should be

taken to further lower the duties on these yarns so that

trade may develop in the weaving of rayon yarns, and with

give the Canadian weavers --

THE COMMISSIONER: You say to lower the duties

on these yarns, and with the tariff on wool

tariff.

MR. McNEIL: Yes, under the tariff on wool, but

it did not come down as far as the acetate yarns.
There was a split and Courtaulds were given a bit of
an edge on Celanese, but effective relief will not
come unless there is some lowering under the inter-
5 mediate and general, under the intermediate particularly
because of the situation that exists in respect to
viscose yarns.

THE COMMISSIONER: To what extent does this company
supply the local requirements of viscose yarn?

10 MR. McRUER: It supplies practically the whole of
the local requirements. That is their whole business.

THE COMMISSIONER: There is very little importation?

MR. McRUER: Very little.

15 THE COMMISSIONER: Do viscose yarns come from
Great Britain?

MR. McRUER: Yes, my lord; most of them that are
brought in are brought in by Courtaulds.

THE COMMISSIONER: Themselves?

20 MR. McRUER: Yes, they brought in quite a few at
the time of the strike.

THE COMMISSIONER: They would come in the same
as anybody else, that is, under the tariff, but do any
of our manufacturers bring it in?

25 MR. McRUER: Very little.

Now, in regard to cotton yarns I need say very
little because Mr. Dodd --

THE COMMISSIONER: What is the trouble there?

30 MR. McRUER: There is an agreement, an explicit
agreement among the four cotton companies fixing the
prices of cotton yarns. It is told in a very short

22 And now, Mr. Chairman, I have to say that
the fact that the tariff is not
an edge on defense, but of native relief will not
come unless there is some lowering under the inter-
mediate and general, under the intermediate portion for
because of the situation that exists in respect to
the tariff.

THE COMMISSIONER: To what extent does this extend
apply the local requirements of various years?
MR. McLENNAN: It applies practically the whole of
the local requirements. That is the whole business.
THE COMMISSIONER: There is very little importation
MR. McLENNAN: Very little.

THE COMMISSIONER: Do various years come from
Great Britain?
MR. McLENNAN: Yes, my lord; most of them do. It is
mostly in the form of a tariff.

MR. McLENNAN: Yes, they brought in quite a lot at
the time of the strike.
THE COMMISSIONER: They would come in the same
as anybody else, that is, under the tariff, but to any
of our manufacturers bring it in?

MR. McLENNAN: Very little.
Now, in regard to cotton yarns I need say very
little because Mr. Bond --

THE COMMISSIONER: That is the trouble there?
MR. McLENNAN: There is no trouble, no difficulty
at all. The tariff is a very small thing.

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space.

THE COMMISSIONER: There, then, you charge a combine?

5 MR. McRUER: A combine, yes -- well, it is really virtually a monopoly as well.

THE COMMISSIONER: Yes, a combine may have the effect of creating a monopoly.

10 MR. McRUER: It just creates a monopoly there. They have got their protection and they come together and they say "there is our price list", and their price list is all the same. Mr. Dodd filed one of the price lists and he said "there you are; it has been in effect for a good many years". At page 313--

15 "Q. Now, the agreement is that for yarn of the same count and same quality that you will each charge the customer the same price?

A. The same price exactly".

20 MR. HEWARD: The evidence refers to yarns 40's or coarser.

THE COMMISSIONER: What class of manufacturers are the customers here?

MR. McRUER: Knitters and other weavers of cotton fabrics.

25 THE COMMISSIONER: Have they complained?

MR. McRUER: Well, not before the Commission.

MR. KELLOCK: The evidence is they like it, my lord.

30 MR. McRUER: Well, I contend on behalf of the consumer that we don't like it so much. The only evidence we have comes from Mr. Dodd, but it puts just

THE COMMISSIONER: Now, you are saying that the evidence is that for years of the same count and same quality that you will each change the contract the same price?

MR. McHUGH: A combine, yes -- well, it is really virtually a monopoly as well.

THE COMMISSIONER: Yes, a combine may have the effect of creating a monopoly.

MR. McHUGH: It just creates a monopoly there. They have got their protection and they come together

and they say "there is our price list", and their price list is all the same. Mr. Dodd filed one of

the price lists and he said "there you are; it has been in effect for a good many years". At page 315--

"10. Now, the agreement is that for years of the same count and same quality that you will each

change the contract the same price?"

MR. McHUGH: The evidence refers to years 40's or 50's.

THE COMMISSIONER: What class of manufacturers

MR. McHUGH: Knitters and other weavers of cotton fabrics.

THE COMMISSIONER: Have they complained?

MR. McHUGH: Well, not before the Commission.

MR. KELLOCK: The evidence is they like it, by

MR. McHUGH: Well, I contend on behalf of the

statement that the evidence is that the only

evidence we have comes from Mr. Dodd, who is not a

an absolute monopoly in the hands of these four companies and they sit together and they say "these are the prices". "We can go up to the level of the tariff and they can like it or not", and that is a vicious thing.

MR. HEWARD: Mr. McRuer, I think the factum does not make it quite clear that the price agreement to which you refer was 40's or coarser.

MR. McRUER: Quite right.

THE COMMISSIONER: What is that?

MR. McRUER: Coarser than 40's.

THE COMMISSIONER: That is in this agreement referred to in Mr. Dodd's evidence?

MR. McRUER: Yes.

THE COMMISSIONER: That refers to yarns coarser than --

MR. McRUER: Coarser than 40's, which is the big bulk of cotton yarns, and the yarns that go into all the fabrics that are used by the poorer to the middle classes, anyway. They are not much interested in the finer ones and I suppose that is the reason they do not need an agreement. Now, I am not going into any detail, anything more in connection with that. They have done everything they can to get a protective tariff, and then they have an agreement not to compete among themselves. Now, what happens to the consumer?

MR. HEWARD: It is not an agreement not to compete.

MR. McRUER: It certainly is an agreement not to compete when they charge exactly the same price for exactly the same count of yarn. Page 213--

an absolute monopoly in the hands of these four companies
and they sit together and they say "these are the
prices". "We can go up to the level of the tariff
and they can like it or not", and that is a victory

MR. HENNING: Mr. Mather, I think the latter does
not make it quite clear that the price agreement to
which you refer was 40's or over?

MR. MATHER: Quite right.
THE COMMISSIONER: What is that?

MR. MATHER: Over 40's.
THE COMMISSIONER: That is in this agreement
referred to in Mr. Bode's evidence?

MR. MATHER: Yes.
THE COMMISSIONER: That refers to your contract

MR. MATHER: Over 40's, which is the big
bulk of cotton yarns, and the yarns that go into all
the fabrics that are used by the poorer to the middle
classes, anyway. They are not much interested in the
finer ones and I suppose that is the reason they do
not need an agreement. Now, I am not going into any
detail, anything more in connection with that. They

have done everything they can to get a protective
tariff, and that they have an agreement not to compete
among themselves. Now, what happens to the consumer?
The answer is that the agreement is an agreement not to
compete among themselves, and that is the only way that
they can get a protective tariff.

"Q. It is a uniform price to all customers?

A. Yes.

Q. Among these four mills? A. Right."

and these four mills doing practically the whole of the business.

THE COMMISSIONER: Is there any written agreement?

MR. McRUER: No, they just have the price, and Mr. Dodd says "there it is". When you once shut out foreign competition and then have the four large manufacturers say "well, we are just going to go together and fix the price" it shows how true what was said in 1888 before the House of Commons is to-day, what was going to happen. The predictions were very true.

Then, we come to the full fashioned hosiery agreements.

MR. HEWARD: Not unless the prices were unduly raised, Mr. McRuer; there is no indication of that at all.

MR. McRUER: Well, I don't think it becomes my friend to argue that we have not proved they were unduly raised. We are in a tariff inquiry; we are not in a criminal court and it will be soon enough --

MR. HEWARD: You say we are taking improper advantage of the tariff. We are not if we are not raising prices improperly.

MR. McRUER: Who is to say what the fair price is when they cannot tell us what the costs of their yarns are. The fact that they make an agreement is a vicious thing, that they come and ask the people of

"Q. It is a uniform price to all customers?

A. Yes.

Q. Is there any written agreement?

and these four mills going practically the whole of the business.

THE COMMISSIONER: Is there any written agreement?

MR. McNEIL: No, they just have the price, and Mr.

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foreign competition and then have the four large

manufacturers say "well, we are just going to go

together and fix the price" it shows how true what

was said in 1888 before the House of Commons is to-

what was going to happen. The predictions were very

true.

Then, we come to the full-fashioned money price

rents.

MR. McNEIL: Not unless the prices were really

raised, Mr. McNeil; there is no indication of that

all.

MR. McNEIL: Well, I don't think it becomes my

friend to argue that we have not proved they were

unduly raised. We are in a tariff industry; we are not

in a criminal court and it will be soon enough --

MR. McNEIL: You say we are taking improper advantage

of the tariff. We are not. It is the tariff which

prices improperly.

MR. McNEIL: Who is to say what the fair price is

and how much it is to be paid for the goods of our people

and the fact that they make an agreement is a

violation of the law, and the people of

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Canada to provide them with a subsidy and then they say what the subsidy will be. They do not even compete among themselves, and will even come before the Commission and say "we have got a right to make an agreement",

5 THE COMMISSIONER: You say that the factor of reasonable competition is lacking.

MR. McRUER: Is lacking; it isn't there. Then, we come to the full fashioned hosiery agreements. Those were gone into extensively with Mr. Hallam. There is no question that they were proven to exist notwithstanding --

10 THE COMMISSIONER: That is where these letters were sent out.

15 MR. McRUER: Yes, I have copied here the type of agreement that was entered into, and a specific price was agreed on and set out for the different types and they objected to people selling under the agreed price.

20 THE COMMISSIONER: Is my recollection right that there is no written agreement in force now?

MR. McRUER: That is correct; that is what Mr. Hallam said. We had some considerable unsatisfactory evidence from Mr. Cook as to whether there was an agreement in force or not.

25 THE COMMISSIONER: Yes, I remember that.

MR. McRUER: There was a memorandum filed of the 5th of May, 1936.

THE COMMISSIONER: You refer to Mr. Cook's evidence?

30 MR. McRUER: I refer to Mr. Cook's evidence in my brief, my lord, and that is at page 323. They tried

Canada to provide them with a subsidy and then they
say that the subsidy will be. Then they say that it is
among themselves, and will even come before the
Commission and say "we have got a right to make an
agreement".

THE COMMISSIONER: You say that the factor of

transmission is in fact

MR. McLENNAN: Is it in fact; it isn't there. Then, we

come to the full fashioned machinery agreement.

Those were gone into extensively with Mr. McLeann. Those

is an agreement that says that the machinery is to be

transmitted --

THE COMMISSIONER: That is where there is a letter

were sent out.

MR. McLENNAN: Yes, I have copied here the type of

agreement that was made in fact, and a copy of the

was entered on and set out for the different types and

one of the types of machinery that is in fact

THE COMMISSIONER: Is my resolution right that

there is no written agreement in force now?

MR. McLENNAN: That is correct; that is correct.

McLeann said. We had some considerable machinery

evidence from Mr. Cook as to whether there was an

agreement in force or not.

THE COMMISSIONER: Yes, I understand.

MR. McLENNAN: There was a written agreement of the

25th of May, 1936.

THE COMMISSIONER: You refer to Mr. Cook's evidence

MR. McLENNAN: I refer to Mr. Cook's evidence in my

list, my list, and that is at page 285. They tried

to say it was not an agreement but we had the very men that were saying it was not an agreement objecting to another firm selling under it.

THE COMMISSIONER: There were some letters written about it.

MR. MOHNER: Oh yes, there were letters written about it, letters written protesting this firm was selling under the agreed price, and time was an element, and so on. There is no doubt that what Mr. Hallam was doing was trying to get these companies together on such a basis, and did get them together on a basis that they were not competing among themselves, and with this very high hosiery duty the consumers of Canada were entirely at the mercy of this committee when they sat down and decided on what would be the price that they would fix. My friend makes something of it that there were people that broke away from it, and so on. Well, my own view is, for what it is worth, that the way to cure price fixing agreements is to make the tariff low enough that they cannot raise the prices under price fixing agreements to such an extent that the consumers will be hurt very much, because they will come in from abroad and meet the competition. That is the cure for this, but the remarkable thing is how busy Mr. Hallam was during the five years of the depression after they got their high protection in fixing up these agreements. In the five years he just had them every place. He was the busiest man in the world arranging price fixing agreements.

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to another firm selling under it.

THE COMMISSIONER: There were some letters written

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MR. HOLLAND: Oh yes, there were letters written

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the five years he just had them every place. He was

the busiest man in the world arranging price fixing

agreements.

- Then, we go into woollen and worsted cloth --

MR. KELLOCK: There is an error there, Mr. McRuer, with your permission; the evidence is as to woollen cloth there never was an arrangement at any time. It just should be worsted.

THE COMMISSIONER: Does that require correction in your brief?

MR. McRUER: Well, just take out the word --

THE COMMISSIONER: What page?

MR. McRUER: 326 at the top.

THE COMMISSIONER: 326.

MR. McRUER: It is just as bad if it is worsted as woollen because worsted is woollen.

Now, there is no doubt as to the agreement there although we had great difficulty in getting it out of Mr. Hallam. Had Mr. Hallam come to the Commission and said "yes, we have these agreements; here they are, and we will tell you all about them, how they were done and what they were done for" one would have thought "well now, this is probably not as bad as it might sound", but when we had to just drag everything out of Mr. Hallam, and then not get very much -- well, he was the official representative of the industry, the members of the industry who were parties to these agreements, but when we go to the various mills and ask them for their correspondence and drag it out here and there and finally get the whole story one is rather driven to the conclusion that Mr. Hallam had a very good reason for trying not to tell us any more than he could help. Now, I have

Then, we go into woolen and worsted cloth --
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THE COMMISSIONER: Does that require correction

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MR. HALLAM: Well, just take out the word --
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industry, the members of the industry who were parties
to these agreements, but when we go to the very ones
and ask them for the correspondence and they
it out here and there and finally get the whole
story out is really better in the Commission's
view, and I am sure that Mr. Hallam is trying not to
sell as any more than he really believes.

dealt with that in regard to the woollen cloth.

Then, we have one additional vicious practice which is dealt with at page 334 of my brief, and that is with regard to the two manufacturers of high grade worsted cloth that is used for uniforms of railway conductors and firemen and policemen. There were two manufacturers in Canada, one the Paton Manufacturing Company and the other Dominion Woollens and Worsted, and these two people, behind the tariff protection that they had, went to work and agreed on the prices they would quote when quotations were called for by contractors. Ogulnick in Montreal called for quotations and we find Dominion Woollens and Worsted quoting it at one price and Patons discovered that Dominion Woollens and Worsted had quoted it at \$2.35, and that was too low and they got Dominion Woollens and Worsted to withdraw that price, and then they both agree to the same price and quote at the same price right along. Well, the country has got to pay for that. It would be very much better to have a tariff that would not induce people to do things like that, or if they did feel induced to do it it would not make much difference because if their price of \$2.35 was higher than the tariff would permit Ogulnick would go and buy in England and that would settle that agreement. Then, at 237 we have direct evidence of an agreement in women's and children's underwear --

THE COMMISSIONER: You mean 337.

MR. McRUER: Yes, my lord. Prices were set,

dealt with that in regard to the woolen cloth.

Then, we have one additional vision practice

which is dealt with at page 304 of my brief, and the

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worsted cloth that is used for uniforms of railway

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two manufacturers in Canada, one the Paton Manufacturing

Company and the other Dominion Woolens and Worsted

and these two people, behind the tariff protection

that they had, went to work and agreed on the prices

they would quote when quotations were called for by

contractors. Ogilvie in Montreal called for

quotations and we find Dominion Woolens and Worsted

quoting it at one price and Paton discovered that

Dominion Woolens and Worsted had quoted it at \$2.35.

and that was too low and they got Dominion Woolens

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price of \$2.35 was higher than the tariff would

permit Ogilvie would go and buy in England and that

would settle the question. Then, at \$2.35 we have

direct evidence of an agreement in women's and

men's clothing.

THE COMMISSIONERS OF CUSTOMS AND REVENUE.

ON 10th JAN 1901. BY JAMES W. B. JAMES.

different manufacturers that were parties to the agreement agreeing to charge the same price for the same sort of articles. Children's sleepers, at page 339, the same thing, all arranged by Mr. Hallam; worsted machine yarn, page 341, Mr. Hallam is busy arranging that. Hand knitting yarn, 344; towels. Mr. Hallam did not exactly arrange the agreement in the case of towels, but the organization operated through Mr. Hallam's office. He was not an officer of the organization but he was responsible for sending out notices. Carpets --

THE COMMISSIONER: Did Mr. Hallam have anything to do with carpets?

MR. McRUER: No, my lord, nothing whatever. It was a man by the name of Kris A. Mapp, chartered accountant, of the firm of Henry, Barber, Mapp & Mapp. He was the one that made the arrangements between the carpet companies, and I have dealt with that on pages 345, 346, 347, 348 and 349.

Then, there is the Broad Silk, which is a different proposition. We are back with Mr. Hallam again.

THE COMMISSIONER: I thought you had something good to say about broad silk?

MR. McRUER: I did say something good about them, and this is something bad.

THE COMMISSIONER: This is modifying it.

MR. KELLOCK: I hope he is not going to take it back.

MR. McRUER: No, I never take back anything. It is a very bad principle.

THE COMMISSIONER: Did you, or did you not say that,

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different matter, and I am not sure of the
arrangement, but I think the same thing. The
same sort of articles. Children's sleepers, at page
339, the same thing, all arranged by Mr. Hallam;
I think that is all. I think it is
arranged that I have not seen it. I think it is
Hallam did not exactly arrange the agreement in the
case of towels, but the organization operated through
Mr. Hallam's office. He was not an officer of the
organization, but he was responsible for the matter.
Notice -- Carpet --
The Commission: Did Mr. Hallam have anything to
do with carpets?
Mr. McNamee: No, my lord, nothing whatever. It was
a matter of fact, I think, that I have not seen it.
of the firm of Henry, Herbert, Mepp & Mepp. He was
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to say about Broad Silk?
Mr. McNamee: I did say something good about them,
this is something bad.
The Commission: This is not lying is it.
Mr. McNamee: I hope he is not going to take it
Mr. McNamee: I have not seen it. I think it is
a very bad proposition.
The Commission: Did you, or did you not say that

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in your opinion, the broad silk people had not taken advantage of the tariff?

5 MR. MORUER: I said that the prices were low, that there wasn't any evidence that they had charged such prices that one could reasonably say they had taken advantage of the tariff.

THE COMMISSIONER: What have they done here?

10 MR. MORUER: What they did here was they were trying very hard to control production so as to regulate prices, and it isn't altogether a question of exactly what they did as what they were trying to do and what they might do in the future that I am apprehensive about in regard to the broad silk people. Rayon has driven
15 them into competition more than anything else in driving down their silk prices, but they had a very definite scheme to control production, and it is working right up to the present day to a certain extent, anyway, by Mr. Hallam's collection of production reports and distribution of them, and so on, but I do not criticize
20 that very seriously in my brief.

It was the other aspect of getting right together to make up their mind they were going to try to control production, and they did try, but they didn't get
25 together as far as the evidence goes, at any rate, yet. Only I am almost doubtful of giving them very much latitude.

Then, at the foot of page 357, my lord, I include this suggestion as to what ought to be done in respect
30 to these things. All these things have not been

in your opinion, the broad silk people had not taken advantage of the tariff?

Mr. McRae: I said that the prices were low, that there wasn't any evidence that they had arranged such prices that one could reasonably say they had

THE COMMISSIONER: What have they done here?

very hard to control production so as to regulate

prices, and it isn't altogether a question of exactly

what they did as what they were trying to do and what

they might do in the future that I am apprehensive about

in regard to the broad silk people. Heyon has driven

them into competition more than anything else in driving

down their silk prices, but they had a very definite

scheme to control production, and it is working right

up to the present day to a certain extent, anyway, by

Mr. Hallen's collection of production reports and distribution

of them, and so on, but I do not criticize

that very seriously in my brief.

It was the other aspect of getting right together

to make up their mind they were going to try to control

production, and they did try, but they didn't get

together as far as the evidence goes, at any rate,

yet. Only I am almost doubtful of giving them very

much latitude.

Now, as the fact of the law, as I understand

this suggestion as to what ought to be done in regard

to these things. All these things have not been

properly digested by this Commission. I do not think it is any part of the duty of this Commission to do more than make a finding as to whether these agreements did exist or not, and that it is the function of the Combines Investigation Officer, the Registrar, to make the proper investigation to determine whether they are such as ought to be dealt with in the proper way.

THE COMMISSIONER: Are you ready to go on with part six now?

MR. McRUER: Yes, my lord.

-- The Commission adjourned for a short recess.

(Page 14785 follows)

They are again as ought to be dealt with in the proper
to make the proper investigation to determine whether
of the Combined Investigation Officer, the Registrar,
wants did exist or not, and that it is the function
more than make a finding as to whether these charges
it is up to the law to this Commission to do
properly dictated by this Commission. I do not think

the Commission adjourned for a short recess.

(BWO 1107 23741 9449)

-- On resuming at 4.10 P.M.

5 MR. McRUER: In the last part of my brief,
my lord, I deal with the Public and Governmental
Relations of the Industry. I intend to say very
little in regard to the tax concessions. All I say
is this: That there are repeated references in the
evidence to the different factories in the industry
securing tax concessions of one sort and another.
10 In one case it is fixed assessment and another case
it is commutation. In another case we have a
bonus and that sort of thing and it is quite a contrast
when we study the financial record of this industry.

15 THE COMMISSIONER: Have not we some cases where
there is both the commutation and the bonus?

MR. McRUER: Yes, Three Rivers.

THE COMMISSIONER: What about Valleyfield?

20 Mr. McRUER: Valleyfield too. Oh, we did not
go into it exhaustively. It seemed to me that
practically all the Minutes where we went back we
found tax concessions of one sort and another.
Take the Dominion Textile Mill at St. Henri, they
got concessions there in the old days, and it is
25 quite a contrast when we consider the profits that
the industry has made and consider the fact that they
have made these profits by taxing the consumers
generally and the fact that in addition to that they
30 go and ask their workmen, so to speak, to pay their

On January 14, 1924.

Mr. Chairman: In the last part of my report, my lord, I dealt with the public and Governmental relations of the industry. I intend to say very little in regard to the tax concessions. All I say is this: That there are repeated references in the evidence to the different factories in the industry securing tax concessions of one sort and another.

In one case it is fixed assessment and another case it is a concession. In another case we have a bonus and that sort of thing and it is quite a common thing to study the financial record of this industry.

THE CHAIRMAN: Have not we some cases where there is both the concession and the bonus?

Mr. Chairman: Yes, some cases. THE CHAIRMAN: What about Valleyfield?

Mr. Chairman: Valleyfield too. Oh, we did not go into it exhaustively. It seemed to me that practically all the minutes where we went back to found tax concessions of one sort and another.

Then the Dominion Textile Mill at St. John's, they got a concession that is not a bonus, but is a concession. It is a concession that is not a bonus.

the industry has made and consider the fact that they have made these profits by taxing the companies. It is not a bonus, it is a concession. It is not a bonus, it is a concession.

taxes or a portion of their taxes because take in a place like Valleyfield, for instance, it is made up very largely of workmen in the factories there and their families and if the Company does not carry its full share of the taxation burden of the town on the same pro rata basis as the workmen do, then the workmen pay a portion of the company's taxes. That is all it amounts to. As I said, these municipalities have been in the habit in the past, in competing against one another, to get industries by giving them concessions of that sort but when we find them complaining about the burden of taxation and the benefits they really have from the public, it makes one think they are at least somewhat lacking in appreciation.

MR. BRUNEAU: I wonder if I might make one slight correction? Page 358 it says:

"The plants of the Canadian Cottons Limited have fixed assessment in the City of Cornwall."
I have been told they have not any fixed assessment or have not any within the last 10 years. I know we had them at the outset, no doubt about that. We certainly not had them under modern times.

MR. McRUER: I was under the impression that that was given them at Cornwall.

MR. BRUNEAU: No evidence of that. The last day I think you asked me and I told you the last day there was none. It was not put in evidence.
I have checked that up since and I have not found

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anything but the Dundas Mill exemption had run out in 1924.

MR. McRUER: Exemption?

MR. BRUNEAU: Fixed assessment.

MR. McRUER: I will accept that. I was under

the impression that the evidence at Cornwall showed it but I probably confused it with the Courtauld plant concerning which we had the direct evidence.

But I quoted this only as an illustration and not as a comprehensive statement in any way of the benefits they have had from these tax concessions.

Now I come to the question of undisclosed profits. It is an extremely important part of this investigation because it goes to the root of the representations that have been made to the government in the past, the necessity for tariff protection, the ground on which the tariff protection has been asked for and the result that the companies have had from tariff protection, and the fact as to whether these companies have carried their share in return and given to the Government a correct statement of their affairs.

Now, in the Annual Report of the Canadian Cottons Limited in 1936 - this is the last deliverance we have had on the subject, Mr. A.O. Dawson states:

"What the Canadian Textile Industry

is greatly in need of is a period of rest from the following:

anything but the Douglas will exemption has the right to

1934.

MR. BROWN: Exemption?

MR. BROWN: Fixed exemption.

MR. BROWN: I will accept that. I was under

the impression that the evidence at Cornhill showed

it but I probably confused it with the Cornhill

plant concerning which we had the direct evidence.

but I quoted this only as an illustration and not as

a comprehensive statement in any way of the benefits

they have had from these tax concessions.

Now I come to the question of unclassified credits

It is an extremely important part of this investigation

because it goes to the root of the representations

that have been made to the Government in the past,

the necessity for tariff protection, the ground on

which the tariff protection has been asked for and

the result that the companies have had from tariff

protection, and the fact as to whether these companies

have carried their share in return and given to the

Government a return commensurate with their activities.

Now, in the annual report of the Canadian Customs

limited in 1933 - this is the last deliverance we

have had on this subject, Mr. J. C. Dawson states:

that the Canadian textile industry

is greatly in need of a period of rest from

the following:

1. Increasing taxation.

2. Tariff uncertainty."

It was nice to raise tariff uncertainty while you are up on the top of the hill, it is a good place to stop.

"3. Unfair competition from countries with lower living standards."

If we are going to get a raise from that it means by increasing the tariff.

THE COMMISSIONER: What countries are aimed at there?

MR. McRUER: I don't know. He has something to say, as I recollect, about Japan later on.

"4. A fuller realization on the part of the Government and of the public that this industry is one of the Country's most valuable assets in that it provides employment for tens of thousands of our citizens and through its large purchases of materials and supplies it adds very materially to the prosperity of many of our key industries. It should be noted also that the Textile Industry, through its very large use of raw materials and the shipping of the finished products of the Mills into every section of the country, both urban and rural, makes a very important contribution to the transportation system of Canada."

Now, the report seems to complain that the Government does not fully realise what a valuable asset this

1. Increasing production.

2. Lowering cost.

It was nice to raise tariff uncertainty while you are up on the top of the hill, it is a good place to stop.

3. Unfair competition from countries with

lower tariff rates.

If we are going to get a raise from that it means

the increasing of tariff.

4. The Government is not to be taken in.

MR. WOOD: I don't know. He has something to

say, but I don't know what it is.

5. A tariff reduction on the part

of the Government and of the public good.

This industry is one of the country's most valuable

assets in that it provides employment for

thousands of our citizens and through

the large purchases of materials and supplies it

adds very materially to the prosperity of many of

key industries. It should be noted also that the

Textile industry, through its very large

use of raw materials and the shipping of the

finished products of the Mills into every section

of the country, has been and will be

the largest contributor to the economic life

of the country.

6. The tariff is not to be taken in.

7. The tariff is not to be taken in.

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industry is. In respect to this particular one the Government was not quite in a position to realise what an asset this industry might be to the Government. In the Annual Report of 1935, Mr. Dawson stated to the shareholders:

"Then too, the Cotton Industry, like all other industries, is feeling greatly the burden of increased taxation, which if continued, will undoubtedly end in disaster, not only to the Enterprises of the Country, but also to the very Men and Governments responsible for the unfortunate position in which we find ourselves.

"Economy in Government, together with a reasonable protection against the products of other countries in which wages are about one-half those being paid in Canadian Mills, would mean the restoration of hope and confidence, now sadly lacking in business circles everywhere."

THE COMMISSIONER: That is to say, in this gentleman's opinion, the present protection is not reasonable.

MR. McRUER: Is not reasonable, no, my lord, and that the taxes are unreasonable.

THE COMMISSIONER: When he talks of taxes that means income tax?

MR. McRUER: Taxes of all sorts. I suppose he means municipal taxes and sales tax and income tax

industry is. In respect to this particular the
Government was not quite in a position to realize
what an asset this industry might be to the Government.
In the annual Report of 1935, Mr. Dawson stated to the

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of other countries in which wages are about
one-half to one being paid in Canadian mills,

would mean the restoration of hope and
confidence, now sadly lacking in business circles
everywhere."

THE COMMISSIONER: That is to say, in this gentleman's
opinion, the present protection is not reasonable.
MR. McNEUR: Is unreasonable, no, my lord, and
that the taxes are unreasonable.

THE COMMISSIONER: When he talks of taxes that mean

MR. McNEUR: Taxes of all kinds, I suppose he
means everything taxes and duties and so on.

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and all sorts, etc. At any rate, he has the two specific grounds of complaint and that is, in 1935 there was insufficient protection, not a reasonable protection and that the taxes were unduly burdensome.

THE COMMISSIONER: I notice his reference is to the Cotton Industry.

MR. McRUER: Yes, my lord.

THE COMMISSIONER: Is this Company engaged in any other manufacturing?

MR. McRUER: The manufacture of rayon.

THE COMMISSIONER: But this reference is to the Cotton Industry.

MR. McRUER: Yes. The files of the Commission contain more letters from Mr. Dawson as president of the Company to the Government asking for favours of one kind and another than any other individual I think on record. I have given some of the exhibit numbers which are examples of his representations and as late as May 2nd, 1936, he wrote to the Minister of Finance:

"As you no doubt surmised, I was absolutely stunned by the 'knockout' blow you gave the Cotton business when you brought down your Budget yesterday.

The Rayon end of our business that has not been captured as yet by the Japanese competition will now be taken from us by our British friends. However, we are going to keep our flag flying

14780

and all sorts, etc. at any rate, he has the
specific grounds of complaint and that is, in fact
there was insufficient protection, not a reasonable
protection and that the same was really
THE COMMISSIONER: I notice his reference is to
the Cotton Industry.

THE COMMISSIONER: Is this Company engaged in any
other manufacturing?
MR. MORRIS: The manufacture of paper.
THE COMMISSIONER: But this reference is to the
Cotton Industry.

MR. MORRIS: Yes. The files of the Commission
contain more letters from Mr. Dawson as president of
the company in the Government and the
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stunned by the 'knockout' blow you gave the
Cotton business when you brought down your Budget
yesterday.

the Government of the United States and that
and been captured as yet by the Japanese companies
will be in some form or in the United States
Government, as the Government of the United States

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Just as long as we possibly can."

So that, although they are being beset by the wolves both from the Atlantic and Pacific, they are still prepared to keep the flag up and nobly fight on.

However, notwithstanding Mr. Dawson's statement to the Government and I emphasize this - and I have emphasized it time and again in my brief - that I think that any industry that receives tariff protection from the Government owes to the Government a duty to make statements clear, frank and truthful when they state anything in regard to their business. That no representative of an industry deriving from the Government a taxing power ought to be heard to say things that are not perfectly frank and clear in regard to that business. That is, that there is a relationship of uberrimae fide\$ existing between the recipients of the privilege and the donors of the privilege.

Now, we had this Company that was keeping the flag flying with an undistributed surplus available for shareholders of \$5,782,067. (Exhibit 917, p.3).

THE COMMISSIONER: Have you that Exhibit right at hand?

MR. BRUNEAU: That is on the basis of the inventory being rated up.

MR. McRUER: No, it is on the basis of the inventory taken at the value which Mr. Brown said---

THE COMMISSIONER: I did not intend to interrupt

Just as long as we possibly can.

So that, although they are being burnt by the police

both from the Atlantic and Pacific, they are still

...and the ...

lying with an undistributed income tax liability for

your argument. You might go on. Page 3 you are referring to, you called that large amount undistributed-how is it headed there?

5 MR. McRUER: "Undistributed surplus available for shareholders." That is how Mr. Howson set it up. That is the Company's surplus together with the inventory reserve.

THE COMMISSIONER: You mean their money surplus?

10 MR. McRUER: Yes.

THE COMMISSIONER: That makes \$5,782,067.?

MR. McRUER: Yes. And in addition there is \$9,000,000 accumulated undisclosed surplus represented in fixed assets. That was by Mr. Howson and his figures were never challenged of this Company for one moment, and worked back from the insurance appraisal to find out what was the surplus in the fixed assets value.

15 20 THE COMMISSIONER: In what way is this accumulation concealed, in what form?

MR. McRUER: Well, ---

THE COMMISSIONER: Depreciation, &c.?

MR. McRUER: Yes, my lord. It is really under-valuation of plant. If the plant were valued at its proper depreciated value it would be \$9,000,000 more because it has been kept up to standard apparently by charges to operation.

25 30 MR. BRUNEAU: I would not like to say those figures are not challenged.

... You might go on. Page 3 you are referring to, you called that large amount undistributed

how is it needed there?

MR. MORRIS: Undistributed surplus available for shareholders. That is not Mr. Brown's set it up.

... is the company's surplus account, is it?

... surplus account.

THE COMMISSIONER: You mean their money surplus?

MR. MORRIS: Yes.

THE COMMISSIONER: That would be, yes, yes.

MR. MORRIS: Yes. And in addition there is

... and undistributed surplus available for

in fixed assets. That was by Mr. Brown and his

figures were never challenged of this company for

one moment, and worked back from the insurance surplus

to find out what was the surplus in the fixed assets

... surplus.

THE COMMISSIONER: In that way is this surplus

concealed, in what form?

MR. MORRIS: Well, ...

... and undistributed surplus available for

... surplus, yes, yes, yes. It is really surplus

... of funds. If the surplus was taken as

its proper depreciated value it would be \$2,000,000

more because it has been set up as a reserve account

at a value in surplus.

MR. MORRIS: I would not like to say more

figures are not available.

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MR. McRUER: You can challenge them now but Mr. Howson has been in the box, Mr. Brown has been in the box and Mr. Howson ---

5 MR. KELLOCK: Mr. Howson was cross-examined on those figures and they were not accepted at all. Mr. Howson admitted that so far as the \$9,000,000 was concerned, in order to realise that, the Company would have to have a fire.

10 MR. McRUER: That is one way of putting it. I say if my friend puts it on the basis, if they could realise that by having a fire, it is perfectly patent it is concealed profits.

15 THE COMMISSIONER: As a result of a fire you get the actual cash value.

MR. KELLOCK: Well, my lord, the \$9,000,000 was on the basis of an appraisal and when I say as result of a fire, even that is going too far. It was on 20 the basis of appraisal for insurance purposes. In other words, what the reciprocal companies concerned would accept the risk at but if there had been a fire then the proof of loss would have been an entirely different thing.

25 THE COMMISSIONER: That is what I say, the actual cash value.

MR. KELLOCK: It would be the market value, as your lordship recalls, plus any value to the 30 insured that the insured could show, but that is entirely a different value from the value as a going

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Mr. Howson has been in the box, Mr. Brown has been in

the box and Mr. Howson ---

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the basis of appraisal for insurance purposes. In

that case, what the appraisal was for was

would accept the risk at but if there had been a fire

then the proof of loss would have been an entirely

different thing.

THE COMMISSIONER: Now is that I say, or

actual cash value.

MR. KILLOCK: It would be the market value,

as you would find it, and that is the

market value, and that is the value of the

property at the time of the fire, and that is the

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concern apart from loss by fire.

THE COMMISSIONER: I suppose you will argue these things later?

5 MR. KELLOCK: I was just saying when my friend says the figures are not challenged --

10 MR. McRUER: I have shown the charges to depreciation, I have shown the charges to the repairs, and I have shown the fact that the nearest valuation that we can get at the present time is this insurance appraisal. My friend has introduced no evidence
15 whatever to show it is incorrect and no evidence to say - we would sell our plant for a lot less, and nothing of that sort has been brought forward. We cannot get down to the lowest cent. They may have a great deal more than that but I am just showing the position this Company was in when it complains in this way.

20 However, we come now to a much more interesting subject, and that is the company's relations with the Income Tax Department.

25 THE COMMISSIONER: Now, that is wholly in reference to this secret reserve, the inventory reserve.

MR. McRUER: The Inventory reserve. Of course, anything that is said in regard to the inventory reserve would be said with equal force to any other kind of reserve that is concealed.

30 THE COMMISSIONER: Insofar as we have had any evidence from the Income Tax Department it has referred

only to this inventory reserve.

MR. McRUER: Yes, quite right.

"All companies incorporated under the laws of the Dominion of Canada are required annually to lay before a meeting of shareholders, a balance sheet drawn up to give certain specific information."

THE COMMISSIONER: Are you referring to any particular page of your brief?

MR. McRUER: Page 362. We start off with what a company is required to give to its shareholders to begin with. Then prior to 1935 in regard to inventory-

THE COMMISSIONER: Pardon me, you do not say what the Act requires to be shown to shareholders.

MR. McRUER: Yes, my lord, particular reference is made to sub-section 2 (d).

THE COMMISSIONER: Oh, this is for the public?

MR. McRUER: Yes, my lord.

"2. (d) inventory, if any, stating the basis of valuation adopted and the manner in which such valuation has been determined; (e) lands, buildings and plant, stating the basis of valuation, whether cost or otherwise and if valued on the basis of appraisal, the date of the appraisal and the name of the appraiser.

(1) the amount or amounts of existing reserves for depreciation, obsolescence and depletion;

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100-100000-100000

"All companies incorporated under the laws of the Dominion of Canada are required annually to lay before a meeting of shareholders, a balance sheet drawn up to give certain specific information."

THE COMMISSIONER: Are you referring to any particular

page of your brief?

MR. MONTGOMERY: Page 308. He starts off with what

a company is required to give to its shareholders to

begin with. Then prior to 1985 in regard to inventory-

THE COMMISSIONER: Pardon me, you do not say what

the Act requires to be shown to shareholders.

MR. MONTGOMERY: Yes, my lord, the Act requires

is made to sub-section 2 (b).

THE COMMISSIONER: Oh, this is for the purpose

MR. MONTGOMERY: Yes, my lord.

"2. (b) Inventory, if any, stating the

basis of valuation adopted and the manner

in which such valuation has been determined;

(c) Assets, liabilities and capital, showing

the basis of valuation, whether cost or other-

wise and if valued on the basis of appraisal,

the case of the appraisal and the name of the

appraiser.

(1) the amount or amounts of existing

Assets for valuation, and liabilities and

liabilities.

(m) the total amount received upon the issue of shares in the capital stock which is attributable to capital."

Then in 1935 the provisions were repealed and the following substituted:

"(d) inventory, if any, stating the basis of valuation adopted and the manner in which such value has been determined in respect of various sub-divisions of such inventory;

and then (f) became (g).,

"(g) lands, buildings and plant, stating the basis of valuation, whether cost or otherwise, and if valued on the basis of appraisal, the date of appraisal, the name of the appraiser, and, if the surplus of the company has been increased as a result thereof, the amount by which the value of such assets has been written up within a period of three years prior to the date of such balance sheet;"

Prior to 1934 the provisions of the Dominion Companies Act were somewhat looser. They were supposed to show stock in trade, lands, buildings and plant, amount written off on account of depreciation of plant, machinery, goodwill and similar items. That sets out generally what the shareholders were entitled to know.

THE COMMISSIONER: You said awhile ago that Governments are entitled to full disclosure in the utmost good faith, and surely shareholders are entitled

issue of shares in the capital stock which is attributable to capital."

Then in 1955 the provisions were repealed and the following substituted:

of valuation adopted and the manner in which such value has been determined in respect of various sub-divisions of each inventory;

and then (1) became (2):

"(2) lands, buildings and plant, stating the basis of valuation, whether cost or otherwise, and if valued on the basis of appraisal, the date of appraisal, the name of the appraiser,

and, if the surplus of the company has been increased as a result thereof, the amount by which the value of such assets has been written up within a period of three years prior to the date of such balance sheet;"

Prior to 1954 the provisions of the Dominion Companies Act were somewhat looser. They were supposed to show

written off on account of depreciation of plant, machinery, goodwill and similar items. That sets out

generally what the shareholders were entitled to know.

THE COMMISSIONER: You said awhile ago that

statements are required to tell shareholders in the

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to the same thing.

MR. McRUER: I should think so.

5 THE COMMISSIONER: It is their company, they own
it. The directors are only their trustees. I say
that because I have seen on other occasions the state-
ment made - oh, the directors say, if we told the
shareholders how well off we are they will want more
dividends.

10 Mr. McRUER: Mr. Dawson intimated that in giving
evidence that if they disclosed this information
to the shareholders it would cause speculation in
the stock, &c. I wonder if it might not cause
15 speculation in the stock if you conceal information
from the shareholders and had the poor shareholders
selling their stock on the basis of what is shown
in the Balance sheet and some of the directors who
know that that is not correct buying the stock.
20 It leaves it open to the greatest sort of fraud on
the part of directors of companies if that sort of
thing is to be recognized as proper practice. I
think the new Companies Act has been designed to tighten
25 that up, undoubtedly was designed for that purpose.
But whether it is in the Companies Act or not good
conscience demands that trustees shall disclose to
their Cestui que a complete and fair statement of the
affairs which were managed by the trustees.

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THE COMMISSIONER: No doubt about that.

MR. BRUNEAU: I think I might ask - my recollection

LAWY

to the same thing.

Mr. [Name] I should think so.

Q. Now, Mr. [Name]: It is their company, they own

it. The directors are only their trustees. I say

that because I have seen an other company and the state-

ment made - oh, the directors say, it is for the

shareholders how well off we are they will want more

information.

Mr. [Name]: Mr. Dawson intended that in giving

evidence that if they disclosed this information

to the shareholders it would cause speculation in

the stock, &c. I wonder if it might not cause

speculation in the stock if you conceal information

from the shareholders and the poor shareholders

selling their stock on the basis of what is shown

in the balance sheet and some of the directors who

know that that is not correct buying the stock.

It leaves it open to the greatest sort of fraud on

the part of directors or companies if that sort of

thing is to be contemplated in the future.

Q. Now, Mr. [Name]: The new company has been designed to fight

that up, undoubtedly was designed for that purpose.

Now whether it is in the companies set or not good

conscience commands that trustees shall disclose to

their stockholders a complete and fair statement of the

affairs which were managed by the trustees.

Q. Now, Mr. [Name]: No doubt about that.

Q. Now, Mr. [Name]: I think I have said all that I have to say.

of the evidence was any shareholder who attended the annual meeting ---

MR. McRUER: No, Mr. Dawson said if we disclosed that it would cause speculation in the shares.

5 MR. BRUNEAU: He said at the annual meeting of the shareholders they were always informed.

10 THE COMMISSIONER: No, I don't think he said they were informed. He said any shareholder attending the meeting might ask questions and get information. Here you have a positive provision of the law that certain information must be given. That is, you say, Mr. McRuer, in addition to any equitable or common law obligation, they must give this information.

15 MR. McRUER: For instance, as the Act was before---

20 THE COMMISSIONER: I am not talking about this Company in particular. In fact, it is not in respect to this Company but where director of some other company in another place gave that information, "Oh, it is best for the shareholders that they should not know how prosperous the Company was, because they would be wanting higher dividends." I think that was in the Price Spreads Inquiry.

25 MR. McRUER: I have seen it written in some financial papers even.

30 THE COMMISSIONER: The shareholders are not wards in Chancery. No directors have a right to act that way with their shareholders.

MR. McRUER: The unconscionable position that it

of the evidence was any shareholder who attended the annual meeting ---

MR. MONTGOMERY: No, Mr. Dawson said it was disclosed that it would cause speculation in the shares.

MR. BURNETT: He said at the annual meeting of the shareholders they were always informed.

THE COMMISSIONER: No, I don't think he said the shareholders were informed. He said any shareholder attending the meeting might ask questions and get information.

Here you have a positive provision of the law that certain information must be given. That is, you say, Mr. Bennett, in addition to any obligation or common law obligation, they must give this information.

MR. MONTGOMERY: For instance, as the Act was before the Commission: I am not talking about this

company in particular. In fact, it is not in respect to this company but where director of some other company in another place gave that information,

and it is best for the shareholders that they should not know how propounds the company was, because they would be wanting higher dividends. I think that was in the price spread inquiry.

MR. MONTGOMERY: I have seen it written in some financial papers even.

THE COMMISSIONER: The shareholders are not warned in Canada. The directors have a right to say that

and it is their responsibility. The Commission has written that it

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5 would put directors in and that is, he knows the
company is worth two or three million dollars, as
the case may be, in real assets more than the balance
sheets show. The shareholder does not know it and he
says, "Now, it is too bad this year we did not make
as much profit as I thought we would make under this
protective tariff. If it cannot do any better than
that I am going to sell my shares." As a fact part
10 of the profits have been transferred to inventory
reserve during that year and the shareholder knows
nothing about it. It is very unfair.

15 We go then to the other statutory requirements
before we analyse this company. We come first to
the Income War Tax Act. Section 33 contains the
provision:

"Every person liable to taxation under
this Act shall, on or before the thirtieth
20 day of April in each year, without any
notice or demand, and any person whether
liable to taxation hereunder or not, upon
receipt of a notice or demand in writing
from the Commissioner of Income Tax or any
25 officer authorized to make such demand,
deliver to the Minister a return, in such
form as the Minister may prescribe of his
total income during the last preceding year."

30 Now, that is expected that he is to deliver a return

1935

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would put directors in and that is, he knows the
company is worth two or three million dollars, as
the case may be, in real assets more than the balance
sheet shows. The shareholder does not know it and so
does not know, it is for him to find out for himself
as much profit as I thought we would make under this
prosecutive tariff. If it cannot do any better than
that I am going to sell my shares. It is a fact that
of the profits have been transferred to inventory
reserve during that year and the shareholder knows
nothing about it. It is very unfair.
as to then to the other statutory provisions
before we analyse this company, we come first to
the Income Tax Act. Section 55 contains the
provision:
"Every person liable to taxation under
this Act shall, on or before the twelfth
day of April in each year, without any
notice or demand, and any person whether
liable to taxation hereunder or not, upon
receipt of a notice or demand in writing
from the Commissioner of Income Tax or any
officer authorized to make such demand,
deliver to the Minister a return, in such
form as the Minister may prescribe or his
agent, that is to say, that he is the holder of a return

of his total income during the last preceding year.

"(2) In such return the taxpayer shall state an address in Canada to which all notices and other documents to be mailed or served under this Act may be mailed or served."

Then Section 35 provides:

"The return in the case of a corporation, association or other body, shall be made and signed by the president, secretary treasurer or chief agent having a personal knowledge of the affairs of such corporation, association or other body, or, in any case, by such other person or persons employed in the business liable, or believed to be liable to taxation, as the Minister may require."

So that when a return is signed it has to be signed by one who has a personal knowledge of the affairs of the corporation.

Section 80 of the Act provides:

"Any person making a false statement in any return or in any information required by the Minister, shall be liable on summary conviction to a penalty not exceeding ten thousand dollars or to six months' imprisonment, or to both fine and imprisonment."

Then prior to the Income Tax laws in Canada, we have the Business Profits War Tax Act in effect.

The Act came into effect first in 1916 and I take it

of his total income during the last preceding year.

"(2) In such return the taxpayer shall

state an address in Canada to which all

notices and other documents to be mailed or

served under this act may be mailed or served."

Even section 85 provides:

"The return in the case of a corporation,

association or other body, shall be made and

signed by the president, secretary, treasurer

or chief agent having a personal knowledge of

the affairs of such corporation, association

or other body, or, in any case, by such other

person or persons employed in the business

liable, or believed to be liable to taxation,

as the Minister may require."

So that when a return is signed it has to be signed

by one who has a personal knowledge of the affairs

of the corporation.

Section 86 of the act provides:

"Any person making a false statement

in any return or in any information required

by the Minister, shall be liable on summary

conviction to a fine not exceeding five

thousand dollars or to six months' imprisonment

or to both fine and imprisonment."

There is also in the act a provision that

any person who fails to file a return

shall be liable on summary conviction to a fine

from its name it was intended to create a special revenue out of profits in business for the purpose of financing the war. Section 3 of the Act provided:

5 "There shall be levied and paid to His Majesty
a tax of twenty-five per centum of the amount
by which the profits earned in any business
exceeded, in the case of a business owned by an in-
corporated company, the rate of seven per centum
10 per annum, and in the case of a business owned by
any other person, the rate of ten per centum
per annum upon the capital employed in such
business. Such tax shall be levied against
and paid by the person owning such business
15 for each and every accounting period ending
after the thirty-first day of December, one
thousand nine hundred and fourteen."

Now, that is that the amount of tax was to be 25% of
20 excess over and above 7% on the capital invested in the
business.

Section 10 of the Act provides:

"Every person liable to taxation under this
Act, shall, on or before the first day of July
25 in each year, without any notice or demand,
deliver in duplicate to the Minister a return
in form J of the schedule to this Act."

"Form J required the company to certify among other
30 things to the net profits earned during the year."

And in 1917 the parties signing the returns was

From its name it was intended to create a special revenue out of profits in business for the purpose of financing the war. Section 8 of the act provided

"There shall be levied and paid to His Majesty a tax of twenty-five per centum of the amount of profit and income earned in any business

exceeded, in the case of a business owned by an individual, in the case of a business owned by a corporation, the rate of seven per centum per annum, and in the case of a business owned by

any other person, the rate of ten per centum per annum upon the capital employed in such business. Such tax shall be levied against

and paid by the person owning such business for each and every accounting period ending after the thirty-first day of December, one

thousand nine hundred and fourteen."

Now, that is that the amount of tax was to be 25% of excess over and above 7% on the capital invested in the business.

Section 10 of the act provided:

"Every person liable to taxation under this act, shall, on or before the first day of July in each year, without any notice or demand,

deliver in duplicate to the collector a return

in form of the schedule to this act."

Thus I required the company to certify every year

that it had paid the tax on its profits

and to 17th and 18th streets, Washington, D.C.

14802

required to certify - that is the Form J:

"The foregoing return, the supplementary statement, and the additional lists attached thereto, contain a true and complete statement of all income received by the above-named company during the year for which this return is made."

Now, that is, that it is a true and complete statement of all income received by the above-named company during the year for which this return is made and I submit that anything less than a true and complete statement would not be fulfillment of the terms of this certificate.

The form required the taxpayer to set out:

"2 (b) Total amount of unimpaired reserve, rest or accumulated profits at the end of the accounting period."

And again the word "total" is there. That means All, does not mean something less upon which some officer of the company should determine it should be.

The form also required a statement showing the detailed income of the Company from operations.

Then in 1918 a more complete statement was required in addition to the information required in the former statement. Details of trading and operating were required showing inventory at the end of the period. Cost of goods sold, inventory at beginning of period, &c. And the following certificate was required to be signed by an officer

required to certify - that is the Form 1:

and the additional lists attached thereto,

contain a true and complete statement of all income received by the above-named company during

the year for which this return is made.

Now, that is, that it is a true and complete statement

of all income received by the above-named company

during the year for which this return is made and I

swear that anything less than a true and complete

statement would not be sufficient for the terms of

this certificate.

The form required the taxpayer to set out:

"3 (b) Total amount of unapplied profits,

net or accumulated profits at the end of the

accounting period."

and again the word "total" is there. That means

All, does not mean something less than which some

officer of the company should determine it should be.

The form also required a statement showing the

detailed income of the Company from operations.

Then in 1918 a more complete statement was

required in addition to the information required in

the former statement. Details of trading and

operating were required showing inventory at the end

of the period. Cost of goods sold, inventory

at beginning of period, etc. And the following

statement was required as an exhibit to the return:

of the Company.

"Certificate of inventories: I

the (Rank of Official) of the

company making this return do hereby certify

that the Inventories included in the above

schedule were taken on a basis

and do not contain any allowance for shrinkage

or decline in value other than as follows:"

And then there is a space. It is not very well spaced
in this copy but it sets it up.

"Depreciation is required to be set out in detail

and very complete information in regard to

assets, liabilities and the profit and loss account."

I had a set of all these forms attached to the
official copy of the Brief, my lord. I just was
able to secure one set. Mr. Whiteley has it.

"The Form bears the following notation:

"INSTRUCTIONS: Fill in carefully the
information required on pages 1, 2 and 3 of this
Form. The schedules on pages 2 and 3 must
show in detail how the respective amounts in the
Summary on page 1 are reached. In addition
thereto every corporation should attach to this
return a copy of auditor's report with certified
financial statements in duplicate including
Assets and Liabilities, Trading or Operating
Account and Profit and Loss Account for the
accounting period covered by this return.

14905

of the Company.

"Certification of Inventories: I

the (Bank of Montreal) of the

company making this return is hereby certified

that the Inventories included in the above

schedule were taken on a basis

and do not contain any allowance for shrinkage

or decline in value other than as follows:

and then there is a space. It is not very well known

in this copy but it sets it up.

"Certification is required to be set out in detail

and very complete information is required to

I had a set of all these forms attached to the

original copy of the Bill, my friend. I just was

able to secure one set, Mr. Whitley has it.

"The following forms are following now at:

This is a copy of the

information required on pages 1, 2 and 3 of this

form. The schedules on pages 4 and 5 must

show in detail how the respective amounts in the

schedule on page 1 are reached. In addition

return a copy of auditor's report with certified

financial statements in duplicate including

assets and liabilities, Trading or Operating

Account and Profit and Loss Account for the

accounting period covered by this return.

If such statement cannot be provided the schedule on Page 4 of this return must be completed. In cases where an audit is not made it must be so stated."

5 So that it is quite clear what the Government required and what any company ought to have given was a complete detailed account of the company's business with no reservations.

10 "The statement of assets and liabilities requires full information in regard to:

Reserve for Depreciation

Reserves for Bad Debts, if any

Other Reserves (Specify)"

15 So that there is no loophole open. The departmental officials had done everything they could to make it clear that there could be no misunderstanding as to what a company was supposed to do.

20 "Similar certificates were required in the years 1919, 1920, 1921, 1922, 1923, 1924, 1925, 1926, 1927, 1928, 1929, 1930 and 1931.

25 In 1932 there was a slight change in the form prescribed. The certificate in this year read as follows:

30 It is hereby certified on behalf of the above named Company that this return and the statement and Schedules attached contained full and complete disclosure of the total income of the said Company from all sources and that

If such statement cannot be provided the
Schedule on Page 4 of this return must be
completed. In cases where an audit is not
made it must be so stated."

So that it is quite clear what the Government requires
and what any company ought to have given was a complete
detailed account of the company's business with no
reservations.

"The statement of assets and liabilities requires
full information in regard to:
Reserve for Bad Debts, if any
(Other Reserve Accounts)"

So that there is no loophole open. The Government
officials had done everything they could to make
it clear that there could be no misinterpretation
as to what a company was supposed to do.

"Similar certificates were required in the years
1935, 1936, 1937, 1938, 1939, 1940, 1941,
1942, 1943, 1944, 1945, 1946, 1947, 1948, 1949, 1950 and 1951.

In 1952 there was a slight change in the form
prescribed. The certificate in this year
read as follows:

It is hereby certified on behalf of the
above named company that this return and the
statement and schedules attached contained full
and complete disclosure of the total income
of the said company from all sources and that

the information given herein is true in every respect and that the expenditures claimed were actually incurred on behalf of the Company, and that the the trading, operating and profit and loss accounts and statements of assets and liabilities and other statements submitted or furnished herewith truly reflect the affairs of the said Company."

Now, there could not have been anything much clearer put to a business concern of what it was required to state and what it did certify to than that. When we come to find what actually took place we see how far short this company fell of making a truthful return of its affairs.

"Clause 15 of the return on page 2 reads as follows:

"Were inventories taken at

(a) cost price?

(b) market value?

If not, on what basis?"

Now, they are trying I think the best they can in the Department without appointing a large staff of auditors that would go into the details of every business in Canada, to get from business concerns a very fair and accurate statement of their affairs.

"Clause 16:

"Are there any reserves against inventories?

If so, give (a) total \$

(b) amount added in fiscal year 1932

the information given herein is true in every respect and that the expenditures claimed were actually incurred on behalf of the Company, and the trading, operating and profit and loss accounts and statements of assets and liabilities are true and correct.

Now, there could not have been anything much clearer put to a business concern of what it was required to state and that it did certify to than that. When we come to find what actually took place we see how far short this company fell of making a faithful return of its affairs.

"Clause 15 of the return on page 2 reads as follows: 'Some inventories taken at (a) ... (b) ...' It is not, on what basis?"

show, they are trying I think the best they can in the Department without appointing a large staff of auditors that would go into the details of every business in Canada, to get from business concerns a very fair and accurate statement of their affairs.

"Clause 16: 'Are there any reserves against inventories?' It is not, on what basis?"

show, they are trying I think the best they can in the Department without appointing a large staff of auditors that would go into the details of every business in Canada, to get from business concerns a very fair and accurate statement of their affairs.

"Clause 16: 'Are there any reserves against inventories?' It is not, on what basis?"

show, they are trying I think the best they can in the Department without appointing a large staff of auditors that would go into the details of every business in Canada, to get from business concerns a very fair and accurate statement of their affairs.

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"(b) amount added in fiscal year 1932

\$"

We have it there narrowed down again for the statement.

"Clause 17:

Are there any reserves not disclosed in the
financial statements furnished herewith?

If so, give details below."

Now, again, the Department is making it as specific as
they can and any company could have no misunderstanding
of what was required of it,

"and a form is prescribed below for the full
information in regard to and a description of
each reserve."

THE COMMISSIONER: "in regard to and a description".

MR. McRUER: Yes, my lord.

"Clause 28 of the return contains the following:

"Section 6, Chapter 97 R.S.C. 1927 provides

that - In computing the amount of profits
to be assessed a deduction shall not be allowed
in respect of

(a) disbursements or expenses not wholly, exclusively
and necessarily laid out or expended for the pur-
pose of earning the income;

(b) any outlay, loss, replacement or
repayment on account of capital."

And that would take care of my friend's flood.

"(c) Amounts transferred or credited to a
reserve, contingent account or sinking fund,

1950

"(b) amount a debt in fiscal year 1950

"

the fact is that the amount of the debt is not known

"(c) amount 17:

Are there any reserves not disclosed in the

financial statements furnished herewith?

If so, give details below."

Now, again, the Department is making it as specific as

they can and any company could have no misunderstanding in

or what was required of it,

"and a form is prescribed below for the full

information in regard to and a description of

and property."

THE COMMISSIONER: "in regard to and a description."

MR. ROBERT: Yes, my lord.

"(c) amount 28 of the return contains the following:

"(c) amount 28 of the return contains the following:

that - in computing the amount of profits

to be assessed a deduction shall not be allowed

in respect of

(e) disbursements or expenses not wholly, exclusively

and necessarily laid out or expended for the pur-

pose of carrying out business

(b) any outlay, loss, replacement or

replacement on account of capital."

and that would the take care of my friend's blood.

"(c) and the transferred or credited to a

reserve, contingent account or sinking fund,

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except limited reserves for bad debts and depreciation.

If any of the following items, or like items, were charged as an expense in arriving at 'net income' (Item 27) they must be added to the said net income as indicated below. If no such charge has been made insert the word 'nil'."

Well, the law is clear and the department has carried it right into the form that has to be filled out.

"Section 36 requires information in regard to Reserves other than for depreciation of wasting assets and bad debts,"

So that we have again under the item 36 - that should be Clause 36, really - it is of the Income Tax form.

"The same information was required by the forms used in 1934 and 1935.

A complete set of the forms required is attached as appendix "A" to the copy of this brief filed with the Commission.

The requirements show that corporations are under express obligation to make full and complete disclosure of their financial affairs to the proper authorities.

While Canadian Cottons Limited was vigorously protesting against competition from abroad, and making statements in its annual reports, indicating that the industry was being seriously

except limited reserves for bad debts and

depreciation.

It any of the following items, or like items,

were charged as an expense in arriving at 'net

income' (Item 27) they must be added to the

aid net income as indicated below. If no such

charge has been made insert the word 'nil'."

Well, the law is clear and the department has carried

it right into the form that has to be filled out.

"Section 36 requires information in regard to

reserves other than for depreciation of wasting

assets and bad debts."

so that we have again under the item 36 - that should

be Class 36, really - it is of the Income Tax form.

"The same information was required by the forms

used in 1934 and 1935."

A complete set of the forms required is

attached as appendix "A" to the copy of this

which will also be furnished.

The requirements show that corporations are

under express obligation to make full and complete

disclosure of their financial affairs to the

tax authorities.

With the new forms required

vigorously protesting against competition from

foreign, unincorporated concerns in the same industry

claiming that the industry was being unfairly

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hampered in its efforts to earn reasonable profits, in fact stating publicly that British competition compelled the company to sell many lines of goods at cost, or below cost, and that unless steps were taken by the Government to further protect the industry, curtailment of production would be necessary, resulting in the further increase in the number of workers unemployed, this Company was not only setting aside large concealed reserves, but was not disclosing to the proper authorities its true profits and was depriving the government of the taxes justly and legally due."

Now, it is quite indicative that Canadian Cottons commenced a new manner of valuing inventory in 1916. It should be 1915. We did not deal with 1915.

MR. BRUNEAU: It takes it further back. We were taxed from the 1st of April, 1914, in fact. It was the first period ending after December 31st, 1914. So that we were taxed back from April 1st, 1914, because our fiscal period ended in March. So we were taxed for a year back from that but the act itself I think was passed April 22nd, 1916, so that we were certainly not in 1914 or 1915 making our statements with the Act in front of us.

THE COMMISSIONER: There is no correction to be made in that?

MR. McRUER: That is right.

"Canadian Cottons Limited changed its policy of valuation of inventory at that time and commenced undervaluing the inventory in varying amounts..."

MR. BRUNEAU: The inventory record disclosed that the Company did have a discount from the time of its reorganization in 1910. It took a discount from its list of selling price and before the Business Profits War Tax Act it was taking up to 25% as a reasonable deduction from its listed selling prices to bring the goods to cost.

MR. McRUER: Of course, 25% deduction from the listed selling price, I am not prepared to quarrel with that just now because all they are doing there is working back from the listed selling price to cost, because ---

THE COMMISSIONER: The point is you state here that "Canadian Cottons Limited changed its policy of valuation of inventory at that time," - that is, 1916?

MR. McRUER: Yes, that is a fact.

MR. BRUNEAU: They changed the rate. They changed from 25% to 40%.

MR. McRUER: They changed their policy of valuing, and that---

THE COMMISSIONER: Well, by 'policy of valuation' you mean a change in the rate?

MR. McRUER: Yes.

MR. BOWEN: That is right.

"Canadian Cottons Limited changed its policy of valuation of inventory at that time and commenced undervaluing the inventory in varying amounts..."

MR. BOWEN: The inventory record disclosed that the

company did have a discount from the time of its

reorganization in 1910. It took a discount from its

list of selling prices and before the Business Practices

Act was it was taking up to 20% as a reasonable

deduction from its listed selling prices to bring the

goods to cost.

MR. BOWEN: Of course, any deduction from the

listed selling price, I am not prepared to quarrel

with that just now because all they are doing there

is working back from the listed selling price to

THE COMMISSIONER: The point is you state here

that Canadian Cottons Limited changed its policy

of valuation of inventory at that time, - that is,

1910?

MR. BOWEN: Yes, that is a fact.

MR. BOWEN: They changed the way they valued

from that time.

MR. BOWEN: That would mean that they were

and that -

THE COMMISSIONER: All right, by the way, at that time

you were a member of the firm?

MR. BOWEN: Yes.

THE COMMISSIONER: What was the change in the rate?

MR. McRUER: Yes, and the raw cotton as well.

We deal with it on page 369. We have a table there.

5 "thereby creating from year to year a secret
reserve, which was not disclosed, either in the
annual statement to the shareholders, or
in any of the returns that the company was required to make to the Government. It has in fact been
10 shown that the officers of the company falsified
the returns to the Government," in order to
conceal the existence of this secret reserve,"
That is, by this valuation of inventory.

15 "---which between 1916 and 1936 reached a
maximum of \$2,506,128.18 and is admitted
to be in 1936, \$2,277,208.81."

MR. BRUNEAU: I wonder if you would pardon me.
We do not admit that as a secret reserve, that amount.
20 We admit, if the Government's contention is right,
we admit those amounts, but I want to make sure we
have not pleaded guilty ---

MR. McRUER: No, I do not suggest that for a moment.
Mr. Brown has dealt with it.

25 Then the next item, my lord, is the method that
was followed by the company in valuing its inventory,
and it is somewhat technical and introduces a new
subject.

30 THE COMMISSIONER: Well, I think we had better
begin it afresh.

Q. Now, what was the change in the rate?

A. Well, the rate was 100, and the new rate was 100.

Q. And you have a table showing the rate with it on page 362.

A. Yes, the rate was 100, and the new rate was 100.

Q. Now, which was not disclosed, either in the

annual statement to the shareholders, or

in any of the returns that the company has reported

to make to the Government. It has in fact

shown that the disclosure of the company's financial

statements to the Government, in order to

disclose the existence of this secret reserve,

that is, by this violation of law.

Q. Now, between 1916 and 1925, the company

received a total of \$2,500,000, and is entitled

to a total of \$2,500,000.

A. Yes, I would like to see it.

Q. Now, I want to ask you, what amount

do you admit that the Government's contention is right,

or admit those amounts, but I want to know how

have not pleaded guilty.

A. Well, I do not suggest that for a moment.

Q. Now, the fact is, my lord, in the method that

was followed by the company in making its statement,

and it is somewhat technical and involves a new

subject.

Q. Now, I think we had better

begin it again.

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-- The Commission adjourned at 5 P.M. to resume
Friday, February 12th, 1937.

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JAN 10 1914

-- The Commission adjourned at 2 P.M. to reconvene
Friday, February 14th, 1914.

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ROYAL COMMISSION ON THE TEXTILE INDUSTRY

HON. MR. JUSTICE W.F.A. TURGEON,

Commissioner,

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A.S. Whiteley, Secretary,

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ONE HUNDRED AND NINTH DAY

(February 12, 1937)

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A R G U M E N T

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Robert Brydie,
Official Reporter.

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ROYAL COMMISSION ON THE TEXTILE INDUSTRY

HON. MR. JUSTICE W.F.A. TURGEON,

Commissioner,

A.S. Whiteley, Secretary,

A p p e a r a n c e s :

J.C. McRuer, K.C. and)

E. Beauregard, K.C.) Commission Counsel,

R.L. Kellock, K.C.) For Primary Textiles
Institute.

C.G. Heward, K.C.)

Aime Geoffrion, K.C.) For Dominion Textile
and) Company,

C.T. Ballantyne,)

S.G. Dixon, K.C.) For Courtaulds Limited.

L.A. Forsyth, K.C.) For Canadian Celanese Ltd.
and Canadian Silk Pro-
ducts Limited.

A.S. Bruneau, K.C.) For Canadian Cottons,

Thos. Tremblay, K.C.)

and) For M.E. Binz Co. Ltd.

J.H. Hebert,)

Francois Lajoie, K.C.) For Nabasso Cotton Co.

-- oOo --

TABLE

ANNUAL REPORT OF THE COMMISSIONER

HON. MR. JUSTICE W. L. R. WILSON

Commissioner

For the year ending 31st March 1934

REVENUE

R. L. Neilson, K.C.
 Commissioner General
 For Primary Textiles
 Institute

R. L. Neilson, K.C.
 Commissioner General
 For Dominion Textile
 Institute

R. L. Neilson, K.C.
 Commissioner General
 For Canadian Cottons
 and Canadian Silk Pro-
 duce Limited

R. L. Neilson, K.C.
 Commissioner General
 For M. F. Silk Co. Ltd.

R. L. Neilson, K.C.
 Commissioner General
 For Canadian Cotton Co.

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Ottawa, Ontario,

Friday, February 12, 1937.

-- The Commission resumed at 10.30 a.m.

ARGUMENT BY MR. McRUER K.C. (Resumed):

Now, my lord, we come to the method employed by Canadian Cottons.

THE COMMISSIONER: What page are you at ?

MR. McRUER: At the bottom of page 368. Your lordship will recollect that Mr. Brown is a chartered accountant who was engaged by the company after the questionnaire was sent out by this Commission, and that he had no part whatever in looking after the company's books or doing its auditing prior to the appointment of this Commission. Mr. Brown showed us the method on which the company had taken valuation of its inventory, and the method on which he considered it ought fairly to be taken.

MR. BRUNEAU: You said, Mr. McRuer, that Mr. Brown said it was the method which he considered ought fairly to have been taken, but actually he made no particular comment on that. He did prepare figures.

MR. McRUER: No, no.

MR. BRUNEAU: I read through his evidence last night.

MR. McRUER: Read it again. I said to him: Mr. Brown, these are the values on a basis which ought fairly to be taken ? And he said, yes.

1888

-- The Commission returned at 10.30 a.m.

(Continued from page 10.)

Now, my lord, we come to the method employed by

Canadian Cottons.

THE COMMISSIONER: What page are you at?

MR. MURPHY: At the bottom of page 368. Your

lordship will recollect that Mr. Brown is a shareholder

shareholder who was engaged by the company after the

questionnaire was sent out by this Commission, and

that he had no part whatever in looking after the

company's books or doing its auditing prior to

the appointment of this Commission. Mr. Brown

showed us the method on which the company had taken

valuation of its inventory, and the method on which

he considered it ought fairly to be taken.

MR. MURPHY: You said, Mr. Mather, that Mr.

Brown said it was the method which he considered

ought fairly to have been taken, but actually he was

no particular comment on that. He did prepare the

MR. MURPHY: No, no.

MR. BRIDIE: I read through his evidence last

night.

MR. MURPHY: Read it again. I said to him

MR. MURPHY: Read it again. I said to him

ought fairly to be taken? And he said, yes.

14815

THE COMMISSIONER: You refer to page 13212 of the evidence.

MR. McRUER: Yes.

5 MR. BRUNEAU: That is Mr. Elliott's evidence, but I do not want to disturb my friend about that now.

MR. McRUER: I want to show you I am accurate. I will come back to that in a moment. I will turn up
10 Mr. Brown's evidence because I was particular in putting that question to Mr. Brown, that in his opinion the basis on which he set it out was the basis that he considered the inventory ought to have been considered on.

15 Then at page 369 of my brief we deal with a comparison between the rates at which the raw cotton was valued and the valuation that Mr. Brown put on it in his calculation. Your lordship will see that in 1918, for instance, according to Mr. Brown's
20 valuation, the proper basis was 28.50 cents per pound, but the rate at which Canadian Cottons valued it for inventory purposes was 7.90 cents per pound; in 1919 Mr. Brown's valuation was 30.50 cents per pound, and Canadian Cottons' 8.55 cents a pound; in
25 1920 Mr. Brown's valuation was 40.14 cents per pound, and Canadian Cottons' 8 cents per pound. So that when one sees the basis on which Canadian Cottons valued their raw cotton, it shows clearly that it was not inventory reserve, that it was not a reserve
30 set up against a fall in the price of raw cotton

14816

because it was out of all proportion to the price at which it ought to have been taken. It was dealing with it from this aspect, that the reserve is not a reserve against losses on inventory at all. It is simply a secret reserve ~~for~~ profits. Now it is vicious enough to set up a reserve against losses on inventory without disclosing it. There is no harm whatever in setting up a reserve and disclosing it. Make whatever reserve you wish, and as long as you disclose your reserve to the proper authorities and to the shareholders of the company, no one can criticize the company for conducting the business in that way. But when one finds that the company sets up in the name of an inventory reserve merely a secret reserve of profits, without disclosing it either to the government or to its shareholders, then the practice is surely one that deserves severe condemnation.

Now we come to deal with the method of valuing the inventory of goods in process and finished goods. That is dealt with at page 370 of my brief. These are the deductions that were made from list prices.

THE COMMISSIONER: These are deductions?

MR. McRUER: Yes, my lord. We find that in 1916 there were deductions made of 25 per cent for goods in process and finished goods; in 1917 that jumped to 40 per cent in each case; 1918, 40 per cent in each case; 1919, 40 per cent in each case; 1920, 40 per cent in each case; 1921, 40 per cent in each case; 1922, 40 per cent in each case; 1923, 40 per

1917

because it was one of all properties to the price
at which it ought to have been taken. It was dealing

with it from this aspect, that the reserve is not

a reserve against losses on inventory at all. It is

simply a general reserve for profits. Now it is various

amounts lost as a reserve against losses on inventory

without disclosing it. There is no loss whatever in

setting up a reserve and disclosing it. Take whatever

reserve you wish, and as long as you disclose your

reserve to the proper authorities and to the share-

holders of the company, no one can criticize the

company for conducting the business in that way.

But when one finds that the company sets up a

reserve of an inventory reserve against a loss reserve

of profits, without disclosing it to the shareholders

government or to the shareholders, then the reserve

is really one of a reserve reserve to shareholders.

Now we come to deal with the question of valuing

the inventory of goods in process and finished goods.

Let us start with the case of my father. These

are the questions that were asked him in 1917.

THE QUESTION: These are the questions?

MR. BRYON: Yes, my lord. To find out in 1917

there were debentures of 25 per cent for loans

in process and finished goods; in 1917 that was

of 25 per cent in each case; in 1917, 40 per cent in

each case; 1917, 40 per cent in each case; 1920,

40 per cent in each case; 1921, 40 per cent in each

case; 1922, 40 per cent in each case; 1923, 40 per

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cent in each case; 1924, 40 per cent in each case;
then in 1925 it was 40 per cent deduction for goods
in process and 50 per cent for finished goods. And
after making all those deductions, after setting up
the reserve, they proceeded then to raise these de-
ductions. In 1925, as I said, it is 40 per cent
deduction for goods in process and 50 per cent for
finished goods; in 1926, 40 per cent and 50 per
cent respectively; 1927, 70 per cent and 70 per cent,
a deduction of 70 per cent on goods in process and
on finished goods.

Now how can it possibly be argued that that was
an inventory reserve when you deduct 70 per cent from
your inventory in both cases? And in that year we
will see how raw cotton was valued. Raw cotton was
valued at one-third of the price that Mr. Brown
suggested it ought to have been valued at.

Then we get down to the depression years, and
it is rather interesting to see how it was dealt with
during those years. In 1931 we find deductions of
60 and 60 per cent respectively on goods in process
and finished goods; 1932, 60 and 60 per cent; 1933,
60 and 60 per cent, and the same till you get down
to 1936 when the deduction was increased to 65 per
cent and 65 per cent in both cases.

Your lordship will recollect that Mr. Dawson
gave evidence that after the financial statement was
made up for the year 1936 they went back and wrote
down their inventory reserve by some \$250,000 after

1931

cent in each case; 1934, 40 per cent in each case;
then in 1935 it was 40 per cent deduction for goods
in process and 50 per cent for finished goods. And
after making all those deductions, after setting up
the reserve, they proceeded then to raise these de-
ductions. In 1936, as I said, it is 40 per cent
deduction for goods in process and 50 per cent for
finished goods; in 1936, 40 per cent and 50 per
cent respectively; 1937, 70 per cent and 70 per cent,
a deduction of 70 per cent on goods in process and
on finished goods.
Now how can it possibly be argued that there was
an inventory reserve when you deduct 70 per cent from
your inventory in both cases? And in that year as
will see how raw cotton was valued. Raw cotton was
valued at one-third of the price that Mr. Brown
suggested it ought to have been valued at.
Then we get down to the depression years, and
it is rather interesting to see how it was dealt with
during those years. In 1931 we find deductions of
50 and 50 per cent respectively on goods in process
and finished goods; 1932, 60 and 60 per cent; 1933,
60 and 60 per cent, and the same till you get down
to 1936 when the deduction was increased to 65 per
cent and 65 per cent in both cases.
That inventory will certainly have been
made up for the year 1936 they went back and wrote
down their inventory reserve by some \$250,000 after

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the budget came out, that this inventory reserve at that time amounted to over \$2,000,000.

THE COMMISSIONER: When was this?

MR. McRUER: Mr. Dawson gave evidence that after the budget came out on the 5th of May 1936 he wrote a letter to Mr. Dunning saying that it gave the cotton industry a knock-out blow. After that, on his orders apparently, they wrote down their inventories over \$250,000 below what they had been shown at in the statement when the books were closed on the 31st of March, 1936.

THE COMMISSIONER: And which was compiled with the deductions?

MR. McRUER: There were additional deductions put on.

THE COMMISSIONER: In what form did this last deduction come out? How was it done?

MR. McRUER: It was by further writing down the inventory.

THE COMMISSIONER: I know, but what way? Was it by deducting again from the actual values?

MR. McRUER: Deducting from the deductions that had already been made.

THE COMMISSIONER: It was not just a lump sum written down?

MR. McRUER: No. They increased the discount apparently by five per cent. Now here is the way this developed, and it is interesting to see the way it came out in evidence.

1918

the budget came out, & at this inventory reserve
at that time amounted to over \$2,000,000.

after the budget came out on the 15th of May 1933 he
wrote a letter to Mr. Manning saying that it was
the cotton industry a knock-out blow. After that,

inventories over \$250,000 below what they had been.
shown at in the statement when the books were closed
on the 1st of March, 1933.

THE COMMISSIONER: and which was corrected after

the corrections?

THE COMMISSIONER: In what form did this last

statement come out? How was it done?

MR. MANNING: It was in the form of a letter to the

Inventory.

THE COMMISSIONER: I know, but what way? Was

it by deducting again from the actual values?

MR. MANNING: Reducing from the deductions that

had already been made.

THE COMMISSIONER: It was not just a lump sum

written down?

MR. MANNING: No. They increased the discount

apparently by five per cent. Now here is the way

way it came out in evidence.

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When I was examining Mr. Dawson in Montreal first, before this secret inventory reserve was disclosed, I was pressing him in regard to statements made in the 1936 annual report to shareholders, and then he disclosed that they had written down their inventory, had gone back and written it down because of the losses, he said, that they expected to make by reason of the budget changes, and at that time before they started the readjustment, concealing \$250,000 profit for the year 1935 which should have been shown to the public at that time, they go back and re-write the inventory to conceal it. He says they did it for fear of losses on inventory, but then later on we discovered that at that very time they had \$2,178,000 concealed reserves at the end of the year 1935. So that re-writing that took place in 1936 could not be a re-writing for the purpose for which Mr. Dawson said it was, but was for nothing more or less than a deliberate concealment of profits, so that a poor story could be put up to the government after the budget came down, and the letter could be written to Mr. Dunning saying: You have given us a knock-out blow.

THE COMMISSIONER: When does this company's fiscal year end?

MR. McRUER: On March 31, 1936. Just look for a moment how this reserve builds up. I am referring to page 370 of the brief. It starts off in 1916 at \$379,000; 1917, \$823,000. These were war

TABLE

disclosed, I was pressing him in regard to the forecasts
then he disclosed that they had written down their
inventory, had gone back and written it down because
of the change in the budget changes, and at that time
before they started the readjustment, concerning
\$250,000 profit for the year 1935 which should have
been shown to the public at that time, they go back and
re-write the inventory to conceal it. He says they
did it for fear of losses on inventory, but then later
on he discovered that at that very time they had
\$2,178,000 concealed reserves at the end of the
year 1935. So that re-writing that took place in
1935 could not be a re-writing for the purpose of
which Mr. Brown said it was, but was for nothing
more or less than a deliberate concealment of profits
so that a poor story could be put up to the govern-
ment after the budget came down, and the latter
given as a knock-out blow.

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5 years in which the company was making very high profits, but notwithstanding that it saw fit to conceal its profits in this way. In 1918 the reserve had grown to \$1,301,000. That is \$1,301,000 of profits earned during those three war years, and concealed in this way from those who ought to have known, both the taxing authorities, the shareholders of the company and the public generally who have an interest in these affairs.

10 Then in 1919 it jumped nearly \$300,000. In 1920 it is up to \$2,312,000. Then it was drawn on in 1921, and it was apparently convenient to draw on it again.

15 THE COMMISSIONER: How would it be drawn on? What would be the mechanism of drawing on it? You see, it is all a question of undervaluing what you have.

MR. BRUNEAU: You would not draw exactly. The prices would come down.

20 MR. McRUER: No, no. Where it had been undervalued in 1920, the raw cotton, for instance, had been undervalued because in 1920 according to Mr. Brown's valuation it should have been valued at 40.14 cents per pound, and it was valued by the company at 8 cents per pound, and then the next year, instead of dropping it to that extent it was 13 cents a pound according to Mr. Brown's valuation, and 6 cents a pound was the valuation put on by Canadian Cottons, and as the inventory is used up, at the end of the year

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Yours is which the company was making very high
 profit, but not maintaining the same in 1930
 certain results in this way. In 1930 the revenue
 had grown to \$1,301,000. That is, I think, the
 profits earned during those times were, and
 considered in this way from what I have
 known, both the various companies, and the
 of the company and the results generally who have an
 interest in these affairs.

Then in 1930 it jumped nearly \$200,000. In
 1930 it is up to \$2,516,000. Then in 1931
 in 1931, and it was up again to \$2,516,000.

THE COMPANY: How well it is doing in
 what would be the position of the company?
 You see, it is not a question of maintaining it.

Q. Now, You would not know exactly.

The prices were low.

In 1930, the new cotton, for instance, for 1930
 had fallen from \$1.20 to \$1.00. Now it
 valuation it should have been valued at \$1.20 per
 per pound, and it was valued by the company at \$1.00
 per pound, and then the next year, instead of \$1.20
 it to that extent it was \$1.20 per pound and
 to Mr. Brown's valuation, but a little lower and
 value the cotton by grading cotton, and as
 the inventory is taken up, at the end of the year

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with a lower inventory they took the advantage of the reserve that is created in that way.

5 THE COMMISSIONER: That is, instead of dropping it 500 per cent as they did in 1920, they only dropped it about 50 per cent ?

MR. McRUER: Yes, and then they show the inventory which they had taken in at the lower value. Then it is built up again year by year until at the end of 1936 it stands at \$2,277,208.81. Now these are figures that are not subject to challenge by my friend because they come from the Exhibit which was produced by Mr. Brown himself.

10 MR. BRUNEAU: He made it up to assist you by taking the figures alleged by the government.

15 MR. McRUER: Mr. Brown has told the Commission how he made it up.

MR. BRUNEAU: The figures are substantially correct, but they are subject to some slight revision.

20 THE COMMISSIONER: You might look at it very carefully, Mr. Bruneau.

MR. BRUNEAU: Yes.

25 MR. McRUER: Mr. Brunescu can get any comfort he likes out of what he said in respect to Mr. Brown's evidence. I have before me now Mr. Brown's evidence At page 12105 of his evidence, line 19, I said to Mr. Brown:

"Q. I presume in making up your figures you tried to make up the figures on the basis of what you thought they ought to be ?

30 A. Yes. "

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with a lower inventory they took the advantage of
the reserve that is created in that way.

THE COMMISSIONER: That is, instead of dropping

it 500 per cent as they did in 1930, they only dropped
it about 50 per cent?

MR. BROWN: Yes, and then they show the inven-

tory which they had taken in at the lower value.

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end of 1936 it stands at \$2,377,208.81. Now these

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Commissioner, and they are the figures which

was produced by Mr. Brown himself.

MR. BROWN: He made it up to assist you by

taking the figures alleged by the government.

MR. BROWN: Mr. Brown has told the Commission

how he made it up.

MR. BROWN: The figures are substantially

correct, but they are subject to some slight revision.

THE COMMISSIONER: You might look at it very

carefully, Mr. Brown.

MR. BROWN: Yes.

MR. BROWN: Mr. Brown can get any comfort he

likes out of what he said in respect to Mr. Brown's

evidence. I have before me now Mr. Brown's evidence

at page 1105 of his evidence, line 15, I said to

Mr. Brown:

"I understand you are saying that

you tried to make up the figures on the

basis of what you thought they ought to be?

A. Yes."

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Then at page 12108, line 15, I asked Mr. Brown this question:

"Q. Now, what I just want to ask you:

When you were computing your figures as to the average cost of cotton you were trying to arrive at the figure, I take it, that ~~XXXX~~ as an accountant you thought was the proper one to put in there? A. Yes, I had to get this information for the completion of this form 13-B, that I referred to."

It could not be much more distinct than that.

MR. BRUNEAU: That is what I want to point out --

MR. MERRILL: Please, Mr. Bruneau, you can mean anything at all, but I cannot conduct my argument if you are going to keep up a running barrage all the time. I think I am being 100 per cent fair, and you will just have to reply when your turn comes.

Then at page 371 of my brief, my lord, I point out that the amount of this secret reserve was in 1936 \$500,000 more than the total amount of inventory as shown in the balance sheet.

Now when Mr. Dawson wrote to Mr. Dunning that he had given the cotton industry a knock-out blow in the last budget, when he maintained in the witness box that it was necessary to go back and re-write their inventory, write it down because of the losses they were going to have to take by reason of the introduction of the 1936 budget, we find to-day that

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Q. Now, what I just want to ask you:

A. Yes.

Q. Now, what I just want to ask you:

A. Yes.

Q. Now, what I just want to ask you:

A. Yes.

Q. Now, what I just want to ask you:

A. Yes.

Q. Now, what I just want to ask you:

A. Yes.

Q. Now, what I just want to ask you:

A. Yes.

Q. Now, what I just want to ask you:

A. Yes.

Q. Now, what I just want to ask you:

A. Yes.

Q. Now, what I just want to ask you:

A. Yes.

Q. Now, what I just want to ask you:

A. Yes.

Q. Now, what I just want to ask you:

A. Yes.

Q. Now, what I just want to ask you:

A. Yes.

Q. Now, what I just want to ask you:

A. Yes.

Q. Now, what I just want to ask you:

A. Yes.

Q. Now, what I just want to ask you:

A. Yes.

their inventory reserve amounted to \$500,000 more than the total amount of inventory as shown on the balance sheet. So, if his position that he took first was a correct one, they expected to lose the whole of their inventory; it was not going to be worth anything after this nefarious budget of 1936 was introduced. That is the sort of thing I criticized time and again, and that I now criticize again. That is, that these people getting the benefit of the protective tariff should come to the government and deliberately deceive the government as to the state of facts that existed in their industry that the letters that were written have not got any foundation in fact when taken at their face value, and that the government has a right to expect more.

Now let us see how this company treated the taxing authorities during the time this inventory was built up. When it was started in 1916, the Business War Profits Tax Act was in effect. I quote from my brief:

"Exhibit 995 is a photostat of the certificate signed by the Secretary Treasurer of the company and filed with the Department of National Revenue. The photostat is a photograph of the company's file copy and does not show a signature."

What I mean by that is that Mr. Brown produced this photostat here of the copy of the return

their inventory reserve amounted to \$500,000 more than the total amount of inventory as shown on the balance sheet. No, if his position that he took that was a correct one, they expected to lose the whole of their inventory; it was not going to be some capital asset which was subject to loss was introduced. That is the sort of thing I criticized time and again, and that I now criticize again. That is, that these people getting the benefit of the protective tariff should come to the Government and deliberately deceive the Government as to the state of facts that existed in their industry that the letters that were written have not got any foundation in fact when taken at their face value, and that the Government has a right to expect more. Now let us see how this company treated the taxing authorities during the time this inventory was built up. When it was started in 1916, the business net profits tax Act was in effect. I quote from my brief:

"Exhibit 995 is a photostat of the certificate signed by the Secretary Treasurer of the company and filed with the Department of National Revenue. The photostat is a photograph of the company's file copy and does not show a signature."

What I mean by that is that Mr. Brown produced this photostat here of the copy of the return

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that was on the company's file, and it does not show the signature of the official signing it, but the copy that was filed with the department was a signed copy, and was signed by Mr. Bruce, the Secretary Treasurer. If your lordship will just look at the photostat itself, it shows it a little plainer than my brief because we have had to type in both those parts that were printed and those that were filled in. The certificate of inventory reads as follows:

" Certificate of Inventory

I, Alexander Bruce, the Secretary Treasurer of the Canadian Cottons Limited, do hereby certify that I have made a careful investigation of the prices on which the inventory of merchandise and materials on hand was calculated for the accounting period which ended on 31st March, 1918, -- "

In the first place the certificate is a clear statement to the government that he knows, that he has investigated. He goes on:

"-- and I make the following declaration, knowing same to be true and correct, viz:"

And he repeats that he knows. Then he is required to state fully the basis on which the inventory was taken at the beginning and end of the period, and if any allowance was made for shrinkage or decline in values, the amount must be stated, and he says:

that was on the company's file, and it does not show the signature of the official signing it, but the copy that was filed with the department was signed copy, and was signed by Mr. Bruce, the

at the photostat itself, it shows it a little clearer than my original because we have had to type in both those parts that were printed and those that were filled in. The certificate of inventory reads as follows:

Certificate of Inventory

I, Alexander Bruce, the Secretary-Treasurer

of the Canadian Cottons Limited, do hereby

certify that I have made a careful investigation

of the books on which the inventory of

merchandise and materials on hand was compiled

and find that the same are correct and true

and that the same are in accordance with the

in the first place the certificate is a clear statement to the government that he knows that he has

investigated. He goes on:

"-- and I make the following declaration,

knowing same to be true and correct, viz:

And he requests that he knows. Then he is required

to state fully the basis on which the inventory was

taken at the beginning and end of the period, and

if any allowance was made for shrinkage or loss

in values, the amount must be stated, and he says:

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"Cloth and process stock taken at cost
less 15 per cent raw cotton and supplies at
cost.

At end of period taken on same basis."

There is a clear statement of the basis. Now in
regard to the raw cotton. It was during that year

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THE COMMISSIONER: This is dated July 9, 1919.

MR. McRUE: That would be for the year ending
March 31, 1918. The raw cotton, according to Mr.
Brown's figures, ought to have been taken at 28.5
cents, but it was taken by the company at 7.9 cents.
The discount on the goods in process and finished
goods was 40 per cent in each case, and the effect
of this discount was to conceal profits made by the
company for that year to the amount of \$478,027.70,
and the secret reserve amounted at the end of that
year to \$1,301,061.14.

It is not really necessary for one to enlarge
on the fact that a company required to make a return,
to make an accurate return, to make a full disclosure
of its profits, not only does not make a full dis-
closure but in this instance has clearly and deli-
berately made a false statement to the government.
There is no need of mincing matters about it at all.
We can just deal with this company the same as any
individual would be dealt with who had done business
in this way with the government.

Then we come to the question of how this was

"Cotton and woolen goods taken at cost
 from 15 cent raw cotton and supplies at

At end of period taken on same basis."

There is a clear statement of the basis. Now in
 regard to the raw cotton. It was during that year

1. Conclusion: This is dated July 9, 1912.

MR. ROYAL: That would be for the year ending

March 31, 1912. The raw cotton, according to Mr.

Brown's figures, ought to have been taken at 26.5

cents, but it was taken by the company at 7.9 cents.

The discount on the goods is gross and finished

goods was 40 per cent in each case, and the effect

of this discount was to conceal profits made by the

company for that year to the amount of \$48,027.70,

and the secret reserve amounted at the end of that

year to \$1,201,061.14.

It is not really necessary for me to enlarge

on the fact that a company required to make a return

to make an accurate return, to make a full disclosure

of the profits, not only does not make a full dis-

closure but in this instance has clearly and deli-

berately made a false statement to the government.

There is no need of raising matters about it at all.

We can just deal with this company the same as any

individual would be dealt with who had been dishonest

in this sort of business.

There is no need of the committee's taking any

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done. An inventory book was kept by the company that showed the basis on which the inventory was taken. There can be no suggestion whatever that in making this return the officials of the company did not make it with full knowledge of the situation. It was urged upon the Commission that the government should have known about this, that they knew about it, and I think the purport of Mr. Dawson's evidence was to lead us to believe that the government knew all about it. Whether that was intended to be levelled at the department officials, that they knew of a situation like this and were not taxing the company, I do not know, but that is the natural deduction, that he tried to lead us to believe that Mr. Elliott had gone over the records. But Mr. Elliott in his evidence said:

"There is nothing in the records of the department to indicate that there had been any other deduction from inventory than the 15 per cent mentioned in the certificate."

Then we come to Exhibit 996, which is another photostat copy of the certificate that was signed on behalf of the company by Mr. Bruce, the Secretary Treasurer.

THE COMMISSIONER: That is for the following year.

MR. McRUER: The following year, ended March 31, 1919. After giving the same general certificate we find opposite this printed part of the form, reading as follows:

1888

gone. An inventory book was kept by the company.

that showed the basis on which the inventory was taken.

there can be no suggestion whatever that in making

this return the officials of the company did not make

it with full knowledge of the situation. It was

argued upon the Commission that the government should

have known about this, that they knew about it, and

I think the purport of Mr. Dawson's evidence was to

it. Whether that was intended to be levelled at

the department officials, that they knew of a situa-

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do not know, but that is the natural deduction.

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had gone over the records. But Mr. Elliott in his

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department to indicate that there had been

any other deduction from inventory than the

15 per cent mentioned in the certificate."

Then we come to Exhibit 995, which is another photo-

stat copy of the certificate that was signed on

behalf of the company by Mr. Bruce, the Secretary.

THE COMMISSIONER: That is not the following ver-

1919. After giving the same general certificate as

that appears in the printed copy of the same certificate

as follows:

14827

"Here state fully the basis on which the inventory was taken at the beginning and end of the period.

If any allowance was made for shrinkage or decline in values, the amount must be stated."

Opposite those words we find this:

"Cloth and process stock taken at cost less 15 per cent. At end of period taken on same basis. In consequence of reduced stocks the extra discount was reduced \$41,556. Raw cotton taken at cost and at the end of period at cost less reserve of \$230,000. Supplies at cost at beginning and end of period."

THE COMMISSIONER: I quite understand the expression that raw cotton and other supplies were taken at cost, but what is meant by saying that their own cloth is taken at cost? They have made the cloth, you see.

MR. MEIJER: That would be the cost of the raw cotton plus the cost of manufacture.

-- Page 14834 follows --

1917

"There state fully the basis on which the
inventory was taken at the beginning and end
of the period.

If any allowance was made for shrinkage
or decline in values, the amount must be

Opposite those words we find this:

"Cloth and process stock taken at cost
less 15 per cent. At end of period taken on
same basis. In consequence of reduced stocks
the extra discount was reduced \$41,556. New
cotton taken at cost and at the end of period
at cost less reserve of \$350,000. Unchanged
at cost at beginning and end of period."

provision that raw cotton and other supplies were
taken at cost, but what is meant by saying that
their own cloth is taken at cost? They have
made the cloth, you see.

MR. McLELLAN: That would be the cost of the
raw cotton plus the cost of manufacture.

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MR. McRUER: We come now to see how the department dealt ---

THE COMMISSIONER: You have there then what we have been looking for, cost of production?

5 MR. McRUER: Maybe.

THE COMMISSIONER: When they say "Cloth and process stock taken at cost" ---

10 MR. BRUNEAU: My lord, I think you will see on the table they took a discount of 25% in 1919 and ---

THE COMMISSIONER: I am saying what is the meaning of the expression "Cloth and process stock taken at cost, less...." - does not matter how much less.

MR. BRUNEAU: Well, it is roughly at cost.

15 THE COMMISSIONER: Cost of production?

MR. BRUNEAU: Yes.

THE COMMISSIONER: That is, they did not take the market value at all, they go to the cost .

20 MR. McRuér: Yes. We come to see how the departmental officials dealt with this claim of \$230,000.

THE COMMISSIONER: I see they give notice there of a reserve of \$230,000.

MR. McRUER: Yes, my lord.

25 THE COMMISSIONER: And that is supposed to come out of the raw cotton.

MR. BRUNEAU: Yes.

30 THE COMMISSIONER: "and at the end of period at cost less reserve---"

MR. McRUER: Now, their reserve at that time

Mr. McNair: We come now to see how the department

dealt ---

THE COMMISSIONER: You have there when what we

have been looking for, cost of production

the average price

THE COMMISSIONER: When they say "Gloster and process

stock taken at cost" ---

Mr. McNair: My lord, I think you will see on the

table they took a discount of 25% in 1919 and ---

THE COMMISSIONER: I am saying what is the meaning

of the expression "Gloster and process stock taken at

cost, less...." - does that matter how much less.

Mr. McNair: Well, it is roughly at cost.

THE COMMISSIONER: That is the question

Mr. McNair: Yes.

THE COMMISSIONER: That is, they did not take the

market value at all, they go to the cost.

Mr. McNair: Yes, we come to see how the department

handled officials dealt with this claim of \$280,000.

THE COMMISSIONER: I see they give notice there

of a sum of \$280,000.

Mr. McNair: Yes, my lord.

THE COMMISSIONER: And that is supposed to be

out of the new cotton.

Mr. McNair: Yes.

THE COMMISSIONER: And at the end of period

at that time

the balance of that time

amounted to \$1,590,000.

THE COMMISSIONER: Not on the raw cotton alone?

MR. McRUER: No, on the whole. We will see how the Department dealt with the subject of \$230,000.

THE COMMISSIONER: They say "Raw cotton taken at cost and at the end of Period at cost less reserve of \$230,000."

MR. McRUER: What they actually did was to take the raw cotton into the inventory at 8.55 when it was 30.50 and then on top of that claimed a reserve of \$230,000 be set up as reserve and that in addition to the \$1,301,000 ---

THE COMMISSIONER: With that reserve allowed, by the way?

MR. McRUER: No, I am going to deal with that. The Department, of course, not knowing of the inventory reserve and not knowing that this \$230,000 was a claim after having written down the raw cotton from 30 cents a pound to about 8 cents a pound, they considered the claim for the \$230,000 reserve and allowed it at \$67,250.00. So that in addition to writing down their raw cotton from 30.5 to 8.55 they got by this representation to the Government an allowance from their profits of \$67,250 for additional reserve. Now, that is not all yet of the capacity for this Company to take advantage of the government.

"In the year 1920 the Income War Tax Act and the Business Profits War Tax Act were both in force,

1917

amounted to \$1,380,000.

THE COMMISSIONER: Not on the raw cotton alone?

MR. BRYDIE: Yes, on the raw cotton.

Now the Department dealt with the subject of \$280,000.

THE COMMISSIONER: They say "raw cotton taken at

cost and at the end of period of cost less reserve

of \$280,000."

MR. BRYDIE: That they actually did was to take

the raw cotton into the inventory at 8.55 when it was

50.50 and then on top of that claimed a reserve of

\$280,000 be set up as reserve and that in addition

to the \$1,301,000 ---

THE COMMISSIONER: With that reserve allowed, by the

MR. BRYDIE: No, I am going to deal with that. The

Government, of course, not knowing of the inventory

reserve and not knowing that this \$280,000 was a claim

after having written down the raw cotton from 50 cents

a pound to about 8 cents a pound, they considered the

claim for the \$280,000 reserve and allowed it at

\$57,380.00. So that in addition to writing down their

raw cotton from 50.5 to 8.55 they got by this repre-

sentation to the Government an allowance from their

inventory of \$57,380.00.

That is not all yet of the capacity for this Company

to take advantage of the Government.

"In the year 1917 the Government was not able to

business profits for tax had were both in 1915,

and returns made under each Act were considered together. The taxpayer paid under the Act which yielded the greater revenue. Later in the year 1920, the price of raw cotton declined from 43 cents in July to 16.65 cents in December."

THE COMMISSIONER: That is the market quotation?

MR. McRUER: Yes, my lord.

"The Company, therefore, made a claim for exemption from taxation on the profits as shown in the printed balance sheet, to the extent of \$823,901.20."

Now, here is what the Company did in this case in 1920. Notwithstanding the fact that they took raw cotton into their inventory at 8 cents a pound, when Mr. Brown says it ought to have been taken in at 40.14, and their inventory showed that basis, they went to the Government and said: "see how raw cotton has declined since our inventory was made up. It has gone down from 40.14 to something in the 20's." - I will deal with the letter in regard to that in a moment - "we have therefore made a loss and should therefore have a deduction from our profits for the purpose of taxation of \$823,901." The claim of the Company was that the profits were arrived at after taking the inventory into the balance sheet at \$2,042,412.12, which was claimed to be based on the market before the decline in the price of raw cotton. What I mean by that is, that we say we have taken our inventory into our Balance Sheet at \$2,042,412.12, that was at a market

and returns made under each Act were considered together. The taxpayer paid under the Act which yielded the greater revenue. Later in the year

in July to 18.65 cents in December."

THE COMMISSIONER: That is the market quotation

MR. MONROE: Yes, my lord.

"The Company, therefore, made a claim for exemption from taxation on the profits as shown in the printed

balance sheet, to the extent of \$883,201.20."

Now, here is what the Company did in this case in 1930

Notwithstanding the fact that they took raw cotton

into their inventory at 8 cents a pound, when Mr. Pro

says it ought to have been taken in at 40.14, and their

inventory showed that basis, they went to the Government

and said: "see how raw cotton has declined since our

inventory was made up. It has gone down from 40.14

to something in the 20's" - I will deal with the

letter in regard to that in a moment - "we have there-

fore made a loss and should therefore have a deduction

from our profits for the purpose of taxation of

\$883,201.20. The claim of the Company was that the

profits were arrived at after taking the inventory

into the balance sheet at \$8.042, 412.13, which was

claimed to be based on the market before the decline

in the price of raw cotton. Now I want to say to

that as you have found the inventory based on

the market value of raw cotton, it is not fair to say

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price of 40.14, therefore we have lost \$823,000
by the decline and that ought to be written out of our
profits.

5 MR. BRUNEAU: Just a moment, on page 376 Mr. McRuer
says it himself, that we did not claim all our inventory
had been taken at 40.14.

10 MR. McRUER: I will read the letters specifically,
you claimed on the basis of the decline from 40.14 you
were entitled to a deduction from profits of \$823,000,
as a matter of fact when the inventory was \$2,042,412.12,
shown in the balance sheet, when that was made up it
was made up on the basis of 4 cents a pound instead of
15 40.

MR. BRUNEAU: Made up in part of 40 cents.

20 MR. McRUER: Well, the government was impressed with
the claim. They said - well now, if you have taken
your inventory into the balance sheet at \$2,042,000,
and it was valued at that time at 40.14, then there has
been a decline now to below 30 cents a pound and it is
quite true that you have made a loss on that
inventory. So we see the correspondence that took
place. The Company had filed with the Department a
25 certificate of inventory on Form J, which contained
the following words, certifying the basis on which the
inventory had been taken:

30 "Cost less depreciation deducted as per
attached statements to bring amount to
correct value current within twelve

price of 40.14, therefore we have lost \$23,000

by the decline and that ought to be written out of our

Mr. BRYON: Just a moment, on page 378 Mr. McHugh

says it himself, that we did not claim all our inventory

had been taken at 40.14.

Mr. McHugh: I will read the letters specifically,

you claimed on the basis of the decline from 40.14 you

were entitled to a deduction from profits of \$23,000,

as a matter of fact when the inventory was \$2,042,413.14,

shown in the balance sheet, when that was made up it

was made up on the basis of 40 cents a pound instead

Mr. BRYON: Made up in part of 40 cents.

Mr. McHugh: Well, the government was impressed with

the claim. They said - well now, if you have taken

your inventory into the balance sheet at \$2,042,400,

and it was valued at that time at 40.14, then there is

been decline now to below 30 cents a pound and it is

quite true that you have made a loss on that

inventory, but we are not going to allow you to

place. The company had filed with the government a

certificate of inventory on Form 7, which contained

the following words, certifying the basis on which the

inventory had been taken:

"Cost less depreciation deducted as per

allowance of \$1,000,000.00

Value of inventory \$1,000,000.00

Value of inventory \$1,000,000.00

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months of the date of inventory...see final
statement of profit and loss,"

Now, they made a statement that the inventory was taken
at cost less depreciation deducted as per attached state-
ments to bring amount to correct value current within
12 months of the date of inventory.... see final statement
of profit and loss, and in the certificate in regard
to inventory in the Income Tax Returns the following
words were used;

"I..... the of the Company making
this return do hereby certify that the inventories
.....has the following value with the reductions
shown on the accompanying sheet, was taken
at prices generally current within one year of the
original date of inventories and have been in no other
way reduced,"

"Taking into consideration the decline in
raw cotton during the year 1920 from the peak
of 43¢ to the figure given by Mr. Elliott of
16.65¢ the Company was allowed the deductions
from these profits for the purpose of taxation
of \$604,000.00."

So that this Company goes to the Government - this
was the end of 1920, after in the previous five years
having deducted from its profits \$2,312,000, on which
it did not pay tax, had written down its inventory
in this way - goes to the government and asks the
government for a tax allowance of \$800,000 and

Months of the date of inventory... see final

Statement of Profit and Loss

they made a statement that the inventory was taken at cost less depreciation deducted as per attached statements to bring amount to correct value current within 12 months of the date of inventory.... see final statement of profit and loss, and in the certificate in regard to inventory in the Income Tax Return the following words were used:

"I..... the of the Company making

this return do hereby certify that the inventories..... has the following value with the reductions

shown on the accompanying sheet, was taken

at prices generally current within one year of the original date of inventories and have been in no way reduced."

"Taking into consideration the decline in

raw cotton during the year 1930 from the peak

of 48¢ to the figure given by Mr. Elliott of

16.35¢ the Company was allowed the deductions

from these profits for the purpose of taxation

of \$804,000.00."

So that this Company goes to the Government - this

was the end of 1930, after in the previous five years

having deducted from its profits \$2,312,000, on which

it has not paid tax, and which was its inventory

in this way - goes to the Government and adds the

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takes and accepts an allowance of \$604,000. It is just difficult for one to control the language that would properly describe conduct of that sort. Most of us feel under a moral obligation to pay our taxes as honourable citizens and do our share in the maintenance of privileges that the Government gives us, but not only did this Company not observe its duties in that regard but having deceived the Government in the first instance goes back for a larger share on the strength of the decline which did not take place in their inventory, because their inventory was then very much under valued.

Would you give me the Canadian Cottons Finance Statement, Mr. Whiteley, please. I just want to see how much their total inventory was at the end of the year 1920 as shown in the Balance sheet and compare it with the Inventory Reserve that they had built up at that time when they go to the Government and say - we have suffered this loss and we want deduction from our profits. Yes, it is the figure I show in my brief. \$2,042,412.12 is the amount of the inventory shown in the balance sheet at the end of March, 1920, and their reserve amounted to \$2,312,767. The total inventory if it had been correctly shown should have been \$4,357,000 about. They had the reserve of \$2,312,000. They showed their inventory in the balance sheet at \$2,042,000, and then they go back to the government and say - on the basis of that we have lost \$820,000 by decline in inventory and we want a deduction from

profits for the purpose of taxation. They were allowed \$604,000.

Would you get me a copy of Exhibit 895.

Now, that this action was deliberate is beyond all question on the evidence that is before the Commission. There was correspondence about it. The correspondence is contained in Exhibit 895, and starts first on the 26th of June, 1920, and this is a bit humorous too because they in making up their statement to the Government, while they were concealing their profits to this extent, they made a slight error of \$128,000 and they went back to have that adjusted. There is a letter from Mr. Breadner to Mr. Bruce. Mr. Breadner was the Commissioner of Taxation and Mr. Bruce was the Secretary of Canadian Cottons. The letter is dated 26th of June, 1920, which reads:

"I am very sorry to learn that through an error in adding back the depreciation which was taken from your Appropriation Account, not from your Profit and Loss Account, your Company has been very heavily overcharged for Business Profits Tax. I am having an amended assessment out to show the correct amount which you should have paid and which agrees with your figures, and shall bring forward to the credit of the Company, the difference of \$128,342.87, which will be shown on the amended assessment to be sent you.

Allow me to thank you for your suggestion as to leaving this balance open till next assess-

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profits for the purpose of taxation. They were

allowed \$504,000.

Would you get me a copy of Exhibit 395.

Now, that this action was deliberate is beyond all

question on the evidence that is before the Commission.

There was no correspondence about it. The correspondence

is contained in Exhibit 395, and starts first on the

28th of June, 1930, and this is a bit numerous too

because they in making up their statement to the govern-

ment, while they were concealing their profits to this

extent, they made a slight error of \$128,000 and they

went back to have that adjusted. There is a letter

from Mr. Bredner to Mr. Bruce. Mr. Bredner was the

Commissioner of Taxation and Mr. Bruce was the Secretary

of Canadian Customs. The letter is dated 28th of

June, 1930, which reads:

"I am very sorry to learn that through an

error in adding back the depreciation which was

taken from your Appropriation Account, not from

your Profit and Loss Account, your Company has

been very heavily overcharged for business

Profits Tax. I am making an amended assessment

out to show the correct amount which you should have

paid and which agrees with your figures, and

shall bring forward to the credit of the Company,

the difference of \$128,343.87, which will be shown

on the amended assessment to be sent you.

Yours very truly,
R. B. Bredner

ment is made - we have no machinery in the Act by which refunds can be made except with a great deal of trouble.

You will be assured that arrangements will be

made regarding next assessment which will suit you and meet the condition caused by this unfortunate error."

Here we have on the one hand the Commissioner of Taxation going out of his way to correct an error that had been made in the charging of depreciation and on the other hand the company going out of its way to prevent the Commissioner of taxation knowing what the real situation was in regard to its profits.

On the 17th of December, 1920, Mr. John Miller, an expert employed by the Canadian Cottons, wrote to Mr. Dawson as follows:

"As you might gather from our telephone conversation yesterday afternoon, the final discussion regarding your company's assessment was both long and difficult. After going over matters fully with Mr. McLaughlin we came to an agreement subject to Mr. Bradner agreeing, and of course to your confirmation."

THE COMMISSIONER: I suppose Mr. McLaughlin is an official of the Income Tax?

MR. McRUER: Yes, he was assistant at that time.

"The difference was so large that Mr. Bradner had to be called in and at first he was most unwilling

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ment is made - we have no machinery in the way
which returns can be made except with a great
deal of trouble.

You will be assured that arrangements will be
made regarding next assessment which will suit
you and meet the condition caused by this inter-
tariate error."

Here we have on the one hand the Commissioner of Internal
Revenue going out of his way to correct an error that had been
made in the charging of depreciation and on the other
hand the company going out of its way to prevent the
Commissioner of taxation knowing what the real situation
was in regard to its profits.

On the 17th of December, 1939, Mr. John Miller,

"as you might gather from our telephone con-

cerning your company's assessment was both long
and difficult. After going over matters fully
with Mr. Buchanan he came to an agreement subject
to Mr. Buchanan agreeing, and of course to your

THE COMMISSIONER: I suppose Mr. Buchanan is an

official of the Income Tax?

MR. MURPHY: Yes, he was assistant at that time.

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to concede the points."

Now, this is in regard to this allowance I have just mentioned of \$604,000. Mr. Breadner was fighting it out.

"I had quite a difficult time with him....."

THE COMMISSIONER: The Company was asking for more than---

MR. McRUER: The Company was asking for \$800,000 some odd.

"....I had quite a difficult time with him, - he is a good deal worried just now - and for a time I feared that I was not going to get him to agree. But after pointing out that I had not pressed for several allowances -- the Bad Debt Reserve for instance - and also that for the previous period certain charges for renewals had been made in full, and that the Common Stock was valued at a low figure Mr. Breadner at last agreed to accept the statement which Mr. McLaughlin and I had already agreed on tentatively. Thereafter I got you on the 'phone and on your agreeing also, the tax was formally settled"

I should think Mr. Dawson would agree.

"....all but the payment. Mr. McLaughlin in view of the reduction of the amount was rather anxious that there should be a substantial payment in January, and I promised to draw your attention to this point in writing. I believe, however,

to concede the points."

Now, this is in regard to this allowance I have just mentioned of \$500,000. Mr. Bradner was fighting it

"I had quite a difficult time with him....."

THE COMMISSIONER: The company was asking for more

then---

MR. BRADNER: The company was asking for \$500,000

some odd.

"....I had quite a difficult time with him, -

he is a good deal worried just now - and for a time

I feared that I was not going to get him to agree.

But after pointing out that I had not pressed for

several allowances -- the fact that I had not

instance - and also that for the previous period

there is a charge for terminals had been made in full,

and that the common stock was valued at a loss

figure Mr. Bradner at last agreed to accept the

agreement which Mr. McLaughlin and I had already

agreed on tentatively. Thereafter I got you on the

'phone and on your agreeing also, the tax was

formally settled

.....

"....all but the payment. Mr. McLaughlin is

view of the reduction of the amount was rather

anxious that there should be a substantial payment

in January, and I pointed out that your attention

that you gave him some idea of what you proposed to do while you were talking to him.

"I think that taking everything into consideration, we have reason to be satisfied with the final results, which is to reduce the Assessment by \$283,453.08. This is arrived at by the allowance as deduction from Profit of:

Allowed as Repairs \$289,584.00

Allowance for depreciation of Inventory still on hand 67,250.00"

That is the figure that we had mentioned before.

MR. BRUNEAU: That refers to 1919 statement you are reading now.

MR. McRUER: Yes, this must refer to the 1919 adjustment because the \$67,250.00 was made then, not the \$604,000.

"Insurance Premiums taken as deferred Salaries or Wages, 20,970.00
\$377,804.00

These amounts falling to be deducted from that bracket of profits to which the 75% Tax applies, the reduction is therefore as above stated.

Personally I think the Department have given you a very fair deal. It appeared to me that it would be most unwise to press for any further allowance, indeed I think that it was partly by refraining from any other claim, that the final tax was carried through. I hope that you and Mr. Bruce and also your Board will be satisfied with what

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that you gave him some idea of what you proposed
to do while you were talking to him.

I think that the statement is correct.

action, we have reason to be satisfied with the
final results, which is to reduce the assessment

by \$283,453.68. This is arrived at by the allo-

ance as deduction from Profit of:

Allowed as Reserve \$283,453.68

allowance for depreciation of
Inventory still on hand \$2,250.00

That is the figure that we had mentioned before.

MR. BROWN: That refers to 1919 statement you a-

reading now.

MR. BROWN: Yes, this must refer to the 1919

adjustment because the \$2,250.00 was made then, not

the \$204,000.

"Insurance Premiums taken as
deducted salaries or wages,
\$2,250.00
\$2,250.00

These amounts falling to be deducted from that

packet of profits to which the 10% tax

applied, the reduction is therefore as above stated.

Personally I think the Department have given

you a very fair deal. It appeared to me that it

would be most unwise to press for any further

allowance, indeed I think that it was partly

by retaining the 10% tax on profits, and the fact

that the 10% tax was applied to the profits, and the

fact that the 10% tax was applied to the profits, and the

working together as we did, the three of us have been able to accomplish."

Now, if we could just cast our minds back to the meeting of Mr. McLaughlin's and Mr. Breadner and Mr. Miller, and that somebody had said to Mr. Breadner, "But this Company has been setting up an inventory reserve over a period that now amounts to \$2,312,000 or in 1919 amounted to \$1,590,000," and just what Mr. Breadner would have said in those negotiations when they were claiming this allowance of \$230,000, which was allowed at \$67,000 in 1919. The suggestion that the Income Tax officials knew of what was going on is entirely contradicted by that letter.

Well then, there is another one on the 15th of Dec., 1920, from Mr. Dawson to Mr. Breadner:

When our Secretary Treasurer, Mr. Bruce, sent you our Statement for Taxation purposes for 1919, he increased our Cotton Inventory by \$230,000.00 over and above the amount shown in our regular Printed Statement for that year.

In view of the tremendous break in the price of cotton, and the very serious losses we have to face in this connection, I trust that you may see your way clear to accept the figures shown in our original Inventory, every dollar of which we will need in the trying days that are ahead of us.

A quantity of the actual Cotton taken into stock 31st March 1919, was still in our possession when the

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working together as we did, the three of us have
been able to accomplish.
Now, if we could just cast our minds back to the time
of Mr. Bredner's visit to the Treasury and the
fact somebody had said to Mr. Bredner, "But this Government
has been setting up an inventory reserve over a period
of what now amounts to \$2,818,000 or in 1910 amounted to
\$1,500,000," and that what Mr. Bredner would have said
in the negotiations when they were claiming this
allowance of \$280,000, which was allowed at \$27,000
in 1911. The suggestion that the income tax officials
knew of what was going on is entirely contradicted by
that letter.
Well then, there is another one on the 10th of Dec.,
1910, from Mr. Dawson to Mr. Bredner:
When our Secretary Treasurer, Mr. Bruce, sent you a
statement for taxation purposes for 1910, he informed
our Cotton Inventory by \$250,000.00 over and above
the amount shown in our regular printed statement
for that year.
In view of the tremendous price in the case of
cotton, and the very serious losses we have to face
in this connection, I trust that you may see your way
clear to accept the figures shown in our original
Inventory, every dollar of which we will need in the
trying days that are ahead of us.
A quantity of the actual Cotton taken into stock
that was 1910, was still in the Government's hands

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market collapsed a few weeks ago."

That is, he is going back to the 31st of March, 1919,
we had a quantity of cotton in stock that was taken
in on those figures and it was still on hand when the
market collapsed a few weeks ago. That is getting
down to near the end of 1920, and therefore we must
have this allowance but not a word then he says about
\$1,590,000 that he has put away in the previous three
years. These letters are a little out of chronological
order. There is another letter of the 18th of November,
which was written before that by Mr. Breadner to Canadian
Cottons:

"Gentlemen:

On examining the returns of your Company
covering accounting period ended 31st of March,
1919, it would appear the following assessment
should be made:

Assessment,	\$702,567.92
Less: Amount over paid in re-	
spect to 1918 period,	<u>128,342.87</u>

Amount due..... 574,225.05

Statement attached."

That is what gave rise to what took place - the corres-
pondence that followed.

Now, we come to the year 1921. On the 17th of
December, 1921, and we go back again to examine our
table at page 370 and we find in the year 1920 they
increased the inventory reserve by \$800,000, approximately
that. Now, on the 17th of December, 1921, the Secretary

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market collapsed a few weeks ago."

That is, he is going back to the 31st of March, 1919,

we had a quantity of cotton in stock that was taken

in on those figures and it was still on hand when the

market collapsed a few weeks ago. That is getting

down to near the end of 1920, and therefore we must

have this allowance but not a word then he says about

\$1,500,000 that he has put away in the previous three

years. These letters are a little out of chronological

order. There is another letter of the 15th of November,

which was written before that by Mr. Schneider to Canadian

Gentlemen:

On examining the returns of your Company

covering accounting period ended 31st of March,

1919, it would appear the following assessment

should be made:

Inventory, 31st March, 1919, \$1,500,000

Less: Amount over paid in re-

spect to 1918 period, 100,000.00

Inventory, 31st March, 1919, \$1,400,000

Statement attached.

Consequence that followed.

Now, we come to the year 1921. On the 15th of

April at page 370 and we find in the year 1920 they

increased the inventory reserve by \$200,000, approximately

that, on the 15th of October, 1921, the inventory

of the Company wrote to the Commissioner of Taxation:

"Dear Sir: RE: CANADIAN COTTONS COMPANY'S INCOME
TAX RETURN TO MARCH 31, 1920."

I beg to confirm figures submitted to the
Department in sheet annexed to Return in the matter
of reduction of Inventory as follows:

RAW COTTON

"5,823,000 lbs. carried from previous year
at approximately 9¢ per pound and shown in
Inventory at that figure, was reduced in
value on account of slump to 6¢ per pound."

1,670,464 lbs. taken in Inventory at
40.14¢ per pound being the actual cost price,
was reduced to market value by a depreciation
of 30¢ per pound."

THE COMMISSIONER: In reality that cotton was
taken in at 8¢.

MR. BRUNEAU: I have the inventory book here for
that purpose, and that is only part of the stock taken
at 40 cents and the figures are not - they are very
ancient figures - there is only one suggestion in the
factum that we ever changed in any way in our books,
and it is here---

MR. McRUER: You took it into inventory.

MR. BRUNEAU: The inventory is right here at pages
64 - 68 to show those two parts. I have inventory
before me.

MR. McRUER: Mr. Brown's evidence ---

THE COMMISSIONER: You are at the very crux of the
whole thing. Mr. Brown - I understand his evidence
is detailed on page 369 and he says that for that year
the raw cotton ought to have been valued at 40.14.

of the company wrote to the Commissioner of Taxation:

Insistent that we ever changed in any way in our blood

MR. MORRIS: You took it into inventory.

- 68 to show those two parts. I have included

• 001 070100

MR. McLEOD: Mr. Brown, a witness

Mr. Brown - known to me as a member of the I. O. O. F. lodge.

MR. BRUNEAU: That is market price.

THE COMMISSIONER: Yes, and that you took it in at 8¢, that is what he says. You say that is not borne out.

MR. BRUNEAU: Not as to this amount of 1,670,464.

MR. McRUER: What do you say as to the other?

MR. BRUNEAU: As to the other there is no question about it.

THE COMMISSIONER: You say you took in 1,670,000 pounds ---

MR. BRUNEAU: At 40¢.

THE COMMISSIONER: Actually did that?

MR. BRUNEAU: Here it is right in the book at pages ---

THE COMMISSIONER: What about the rest of the raw cotton - how much was there?

MR. BRUNEAU: The rest is taken at varying amounts and averages between 8 and 9.

THE COMMISSIONER: And how much?

MR. BRUNEAU: 5,823,000 lbs.

THE COMMISSIONER: At about 8¢?

MR. BRUNEAU: Between 8 and 9.

THE COMMISSIONER: That is what your books show?

MR. BRUNEAU: Yes.

THE COMMISSIONER: I will take a mental note of that now. Later on in the course of your argument we will hear more about it.

MR. BRUNEAU: There was a statement that we changed

1917

MR. BRYDIE: That is what I price.

THE COMMISSIONER: Yes, and that you look it in at 84, that is what he says. You say that is not

that is.

MR. BRYDIE: Not as to this amount of 1,670,000.

MR. BRYDIE: What do you say as to the others?

MR. BRYDIE: As to the other there is no question

about it.

THE COMMISSIONER: You say you took in 1,670,000

MR. BRYDIE: At 84.

THE COMMISSIONER: That is what I price.

MR. BRYDIE: Here it is right in the book at

pages ---

THE COMMISSIONER: What about the rest of the year

cotton - how much was there?

MR. BRYDIE: The rest is taken at varying amounts

and averaged between 8 and 9.

THE COMMISSIONER: And how much?

MR. BRYDIE: 5,320,000 lbs.

THE COMMISSIONER: It about 84?

MR. BRYDIE: Between 8 and 9.

THE COMMISSIONER: That is what your books show?

MR. BRYDIE: Yes.

THE COMMISSIONER: I will take a mental note of

this and later on in the course of your argument

we will have more about it.

MR. BRYDIE: There was a statement that he made

our books and here is the books that Mr. Grant saw,
and I will explain in my argument ---

THE COMMISSIONER: You had between one-third and
a quarter at 40.14.

5 MR. BRUNEAU: Less than a quarter, about one-fifth.
In going over the inventory I found the interesting fact
that the amount was the same as they carried over pre-
vious year.

10 MR. McRUER: The fact is that you took it in,
5,823,000 lbs, at about 8¢ when 40.14 was Mr. Brown's
figures.

15 MR. BRUNEAU: And when the Government read this
letter that was fully before them. What I would like
to know is what the Government did not know after reading
that letter.

MR. McRUER: Well, we will find out.

THE COMMISSIONER: After reading which letter?

20 MR. BRUNEAU: The one that Mr. McRuer has read now.
We have shown 5,800,000 odd carried at approximately
at 9¢, 30 cents less than the market price. There is
practically \$1,800,000 disclosed in that item.

25 THE COMMISSIONER: That appears to be right.

MR. McRUER: Well, I will have to check my friend's
figures. The fact is that during that year they
had increased their inventory reserve by about
\$788,000.

30 MR. BRUNEAU: Because the price had gone up.

MR. McRUER: The price had gone up? You took it

1910

our books and here is the books that Mr. Grant saw,

and I will explain it as follows:

THE COMMISSIONER: You had between one-third and

a quarter at 40.14.

MR. BROWN: Less than a quarter, about one-fifth.

In going over the inventory I found the interesting fact that the amount was the same as they carried over previous year.

MR. MORRIS: The fact is that you took it in,

figures.

MR. BROWN: And when the Government read this

letter that was fully before them.

to know is what the Government did not know after reading

MR. MORRIS: Well, we will find out.

MR. BROWN: The one that Mr. Morris has read now

is 50 cents less than the market price. There is

practically \$1,800,000 disclosed in that item.

THE COMMISSIONER: That appears to be right.

figures. The fact is that during that year they

had increased their inventory reserve by about

figures.

figures.

in at that amount less than the basis on which
Mr. Brown suggested that it ought to have been taken in.

Then goes on:

MANUFACTURED GOODS

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"In the March 1920 Inventory manufactured
cloth on hand was taken into stock at current
values, amount shown \$477,050.00. The loss
by decline in the market and drop in the
Company's Price List brought the value down
to \$328,978.00. A loss of \$148,072."

In the year 1920, the adjustment was 40% - "current value"
is kind of a loose term, of course.

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Then Mr. Dawson on the 16th of February, 1922, wrote
to the Inspector of Taxation:

"Dear Sir: Attention Mr. Frigon

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With reference to the deduction from Profits
of this Company for the year ending 31st March 1920,
of \$823,901.20 on account of inventory depreciation,
we have to state in addition to what we wrote you
in our letter of December 17, last, that this amount
was arrived at by reference to quotations for the
same grades of materials within twelve months of
31st March 1920.

30

If you consider it necessary we are prepared
to substantiate this by quotations, which we have or
can procure.

We wish also to mention that up to the time
that the market broke our inventory was not lower

1934

is at that point that the value of the

is, however, not to be taken into account

There is no

REVENUE & EXPENSE

At the March 1934 inventory was included

up decline in the market and drop in the

company's price list brought the value

in the year 1934, the adjustment was 40% - current value

is kind of a loose term, of course.

in the year 1934, the adjustment was 40% - current value

REVENUE & EXPENSE

With reference to the deduction from profits

of this company for the year ending 31st March 1934

of \$55,501.20 on account of inventory depreciation

we have to state in addition to what we wrote you

is our estimate of the value of the inventory at the end of the year

was arrived at by reference to quotations for the

same grades of materials within twelve months of

and the value of the inventory at the end of the year

If you consider it necessary we are prepared

to substantiate this by quotations, which we have

and the value of the inventory at the end of the year

we also have to mention that the value of the inventory at the end of the year

and the value of the inventory at the end of the year

in quantity, but on the contrary it gradually increased."

5 So that we have Mr. Dawson himself in this letter asking for deduction of \$823,000 from profits but not disclosing the deduction that had been made in the previous years.

MR. BRUNEAU: My lord, it was fully disclosed in the letter immediately following.

10 MR. McRUER: Nothing of the kind. There is not a vestage of disclosure to the Government in any place that you had an inventory reserve of \$2,312,000.

MR. BRUNEAU: My lord, that is the crux of the question. 9¢ on 6,000,000 pounds disclosed in that letter and we say we have not---

15 MR. McRUER: Will you tell me where there is any disclosure that you had \$2,312,000.

MR. BRUNEAU: Yes, right in the letter. Approximately 6,000,000 pounds at 9¢ a pound, when it should be 40¢ a pound, is 30 cents, and that makes \$1,800,000 right in that item fully disclosed.

20 THE COMMISSIONER: What is the date of that letter?

MR. BRUNEAU: December 17th, 1921.

25 THE COMMISSIONER: Read it again, will you:

MR. BRUNEAU: And it shows we had been taking it from previous year ---

THE COMMISSIONER: Well, we will have to hear the letter read.

30 MR. McRUER: "I beg to confirm figures submitted to the Department in sheet annexed to Return in the

in quantity, but on the contrary is gradually
increased."

So that we have Mr. Dawson himself in this letter asking
for deduction of \$828,000 from profits but not disclosing
the deduction that had been made in the previous years.
MR. HENNING: My lord, it was fully disclosed in the
letter immediately following.

MR. McNEIL: Nothing of the kind. There is not a
vestige of disclosure to the government in any place
that you had an inventory reserve of \$2,312,000.

MR. HENNING: My lord, that is the sum of the money
on \$,000,000 pounds disclosed in that letter and we
say we have not --

MR. McNEIL: Will you tell me what part is not
disclosed that you had \$2,312,000.

MR. HENNING: Yes, right in the letter. And you
\$,000,000 pounds at 24 a pound, when it should be 25
a pound, is 20 cents, and that makes \$1,800,000 right
in that item fully disclosed.

THE COMMISSIONER: What is the date of that letter?

MR. HENNING: December 17th, 1911.

THE COMMISSIONER: Was it signed, will you?

MR. HENNING: And it shows we had been taking it from

THE COMMISSIONER: Well, we will have to hear the
letter read.

MR. McNEIL: I beg to certify figures submitted

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14851

matter of reduction of Inventory as follows,-

RAW COTTON

5,823,000 lbs. carried from previous year at approximately 9¢ per pound and shown in Inventory at that figure, was reduced in value on account of slump to 6¢ per pound.

1,670,464 lbs. taken in Inventory at 40.14¢ per pound being the actual cost price, was reduced to market value by a depreciation of 30¢ per pound."

THE COMMISSIONER: That tells us that the large amount of 5,823,000 was taken in at 9¢ and had been reduced to 6¢. What do you say to Mr. Bruneau's objection that there was some notice in that to those concerned?

MR. McRUER: How much does that work out at?

THE COMMISSIONER: That will be about \$1,800,000.

MR. BRUNEAU: That is in the first item only, and apparently meets with approval.

THE COMMISSIONER: Mr. Dawson's letter, give me the date again.

MR. McRUER: That letter is from the Secretary dated the 17th of December, 1921.

THE COMMISSIONER: Not from Mr. Dawson?

MR. McRUER: No.

THE COMMISSIONER: While you are at it what do you say about the statement that there was 1,670,464 lbs. taken in inventory at 40.14¢ per pound. That is so?

MR. BRUNEAU: Yes, that is shown by the books, right in the inventory books at pages 64-68. And I volunteer the information, so far as I could judge adding up these inventories, it appears they had taken

14851

matter of reduction of inventory as follows:-

2,825,000 lbs. carried from previous year at approximately 94 per pound and shown in inventory at that figure, was reduced in value on account of ship to 64 per pound.

1,870,454 lbs. taken in inventory at 40.14 per pound being the actual cost price, was reduced to market value by a depreciation of 304 per pound.

THE COMMISSIONER: That tells us that a large amount of 2,825,000 was taken in at 94 and had been reduced to 64. What do you say to Mr. Brennan's suggestion that there was some notice in that to those concerned?

MR. BRENNAN: How much does that work out to?

THE COMMISSIONER: That will be about \$1,500,000.

MR. BRENNAN: That is in the first item only.

THE COMMISSIONER: Mr. Brennan's letter, gives us the

MR. BRENNAN: That letter is from the Secretary

dated the 17th of December, 1931.

THE COMMISSIONER: Not from Mr. Brennan.

MR. BRENNAN: No.

THE COMMISSIONER: While you are at it what do

you say about statement that there was 1,870,454 lbs.

taken in inventory at 40.14 per pound. That is 20

MR. BRENNAN: Yes, that is shown by the books,

right in the inventory books at pages 82-83. And I

whether the information, so far as I could trace

5 \$1,950 bales, same number as the previous year and
same price the previous year, but additional bales
they had taken them in at cost price. So that there
is apparently some accounting theory of normal stock
they were working on. But they maintained a sort of
standard level at a price which they carried right
through the inventory from beginning to end of the
period 1916 to 1921. Now, that theory may be wrong -
10 I mean it is arguable.

MR. McRUER: On what is it founded?

15 MR. BRUNEAU: Well, it is a well known accountancy
theory the normal stock they had on hand they are
entitled to retain at the figure at which they bought
it. That is what they call their cost. They had rough-
ly 6,000,000 pounds of cotton at this time and it was
bought at this price and they retained this price
right through - that is, as far as I could see. Whether
20 that is right or wrong, it is one sort of cost theory
and seems to be accepted, fully disclosed in this letter
and satisfactory to the Government at that time as far
as the raw cotton is concerned.

25 MR. McRUER: Well, I do not agree with my friend
on that.

THE COMMISSIONER: We will adjourn for a few
minutes.

-- Adjourned at 11.45.

\$1,250 sales, same number as the previous year and
same price the previous year, but additional sales
they had taken them in at cost price. So that there
is apparently some accounting theory of normal stock
they were working on. But they maintained a sort of
standard level of a price which they carried right
through the inventory from beginning to end of the
year. Now, that theory may be wrong -
I mean it is arguable.

MR. NORMAN: On what is it based?
MR. BRYDIE: Well, it is a well known accounting
theory that stock they had on hand they are
entitled to retain at the figure as they had
it. That is what they call their cost. They had to
pay 6,000,000 pounds of cotton at this time and it was
bought at this price and they retained this price
right through - that is, as far as I could see, what
that is right or wrong, it is one sort of cost theory
and seems to be accepted, fully disclosed in this ledger
and satisfactory to the Government at that time as far
as the raw cotton is concerned.

MR. BRYDIE: Well, I do not agree with my friend

we will adjourn for a few

— adjourned at 11.45

(The Court adjourned)

-- On resuming after recess.

5 MR. McRUER: Mr. Heward had a correction that he wanted me to make, my lord, which is quite right. At page 312 of my brief there is a reference made there to the price agreement in regard to yarns and it is stated to be Dominion Textile Company, Wabasso Cotton Company, Montreal Cotton Company and the Hamilton Cotton Company. That ought to be Canadian Cottons Limited instead of Montreal Cottons Limited.

10 THE COMMISSIONER: Montreal Cottons Limited should be Canadian Cottons Limited.

15 MR. McRUER: Canadian Cottons Limited. The situation is this agreement is in regard to yarns finer than 40's --

 MR. HEWARD: Coarser than 40's.

 MR. McRUER: Coarser than 40's, and I understand that Montreal Cotton Company does not make yarns coarser than 40's so it is not in the field.

20 MR. HEWARD: They make them but not to sell.

 MR. McRUER: Make them for their own use but not to sell.

25 The situation at this time in regard to this inventory reserve was that the reserve they had at that time amounted to \$300,000 more than the total amount of the inventory so that it is difficult to conceive how the department, if they understood or appreciated in any sense that they had an inventory reserve of that sort, would allow them a deduction of

30 \$602,000 from profits if they had a reserve that

-- ON REMAINING WITH COMPANY

Mr. McRae: Mr. Howard had a suggestion that he

wanted me to make, my lord, which is quite right.

At page 212 of my brief there is a reference made to

to the price agreement in regard to yarns and it is

stated to be Hamilton Textile Company, Kansas Cotton

Company, Montreal Cotton Company and the Hamilton

Cotton Company. That ought to be Hamilton Cotton

limited instead of Montreal Cottons limited.

THE COMMISSIONER: Montreal Cottons limited also

be Canadian Cottons limited.

Mr. McRae: Canadian Cottons limited. The al-

tion is this agreement in regard to yarns then.

When 40's --

Mr. McRae: I understand that 40's

Mr. McRae: I understand that 40's, and I understand

that I understand that 40's and 40's are not in the

When 40's so it is not in the field.

Mr. McRae: They make them but not to sell.

Mr. McRae: Make them for their own use but

to sell.

The situation at this time in regard to this

inventory reserve was that the reserve they had

that time amounted to \$800,000 more than the total

amount of the inventory so that it is difficult to

conceive how the department, if they understood or

understand is not aware that they had an inventory

of that sort, would allow them a reduction of

the inventory at that time.

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amounted to three hundred and some odd thousand dollars more than the total amount of the inventory.

5 THE COMMISSIONER: Yes, but how do you explain this bald statement in the letter of December 17, 1921 from the secretary of the company to the Commissioner of Taxation where under the heading of "raw cotton" he divides the subject into two figures and he says:

10 "5,823,000 lbs. carried from previous year at approximately 9¢ per pound and shown in Inventory at that figure, was reduced in value on account of slump to 6¢ per pound".

Have we any evidence as to what the Department did or thought or said about that?

15 MR. BRUNEAU: Mr. Elliott gave the decision.

THE COMMISSIONER: What did he say about that?

MR. BRUNEAU: That they accepted that 6 cent figure; they cut down our price by 30 cents -- they allowed us 20 cents a pound on cotton on the basis of the letter with Mr. Grant's report. You see they checked up to 20 make sure.

THE COMMISSIONER: You have referred to Mr. Elliott's evidence. Are you saying Mr. Elliott at that time, or are you talking of his evidence here?

25 MR. BRUNEAU: Oh, of his evidence. He stated that they allowed this and stated the basis of the assessment.

THE COMMISSIONER: Does he still accept it?

MR. BRUNEAU: I don't know whether he still accepts 30 it.

THE COMMISSIONER: You see, he detailed to us here

the claim he is making against your company through all these years amounting to -- I forget how much.

MR. McRUER: Well, in respect to the Business War Profits it would amount to two hundred and some odd thousand dollars.

MR. BRUNEAU: I must say I think we all failed to appreciate the importance of that letter. I only saw it when the brief came before my attention, and I have asked Mr. Elliott to indicate to me in what way we have not made full disclosure up to that time.

THE COMMISSIONER: You did not put it to Mr. Elliott yourself when we had him here.

MR. BRUNEAU: No.

MR. McRUER: As a matter of fact, on the calculation of the income tax, the amount due to the government, I don't think it is either here nor there, because Mr. Elliott explained that if they go back and calculate the Business War Profits Tax then when they debit them with one thing they have got to credit them with another.

THE COMMISSIONER: If they take it off one end they don't take it off the other.

MR. McRUER: Because they made six hundred and some odd thousand dollars loss in the year on this inventory reserve; the inventory reserve was drawn on for profit.

THE COMMISSIONER: That may be alright, ~~xxx~~ too, when you are looking for an adjustment over a long period of years, but have we any explanation as to why at this time in December, 1921, nobody seems to

1932

THE STATE OF NEW YORK

all these years amounting to -- I forget how much.

MR. McLELLAN: Well, in respect to the business

profits it would amount to two hundred and some odd

thousand dollars.

MR. McLELLAN: I must say I think we all tried to

appreciate the importance of that letter. I only say

it when the brief came before my attention, and I have

asked Mr. Elliott to indicate to me in what way we

have not made full disclosures up to that time.

THE COMMISSIONER: You did not put it to Mr.

Elliott yourself when we had him here.

MR. McLELLAN: Yes.

MR. McLELLAN: As a matter of fact, on the calculation

of the income tax, the amount due to the government,

I don't think it is a very large sum, because it

Elliott explained that if they go back and calculate

the business war profits tax then when they debit it

with one thing they have got to credit them with

the other.

THE COMMISSIONER: If they take it off one end

they don't take it off the other.

MR. McLELLAN: Because they made six hundred and

some odd thousand dollars loss in the year on this

inventory reserve; the inventory reserve was drawn

on for profits.

THE COMMISSIONER: That may be all right, but too

when you are looking for an adjustment over a long

period of years, but have we any explanation as to

why at this time in December, 1931, nobody seems to

have noticed the statement contained in this letter?

MR. BRUNEAU: Oh, I think they noticed it, my lord.

THE COMMISSIONER: How do you know they noticed it?

5 MR. BRUNEAU: Well, I don't see how they could help seeing that the cotton was carried at nine cents a pound, and in the previous year as well, although the market values were notoriously 30 and 40, and we disclosed it right there in the same letter that
10 we are carrying 1,600,000 pounds at 40. Why don't they say why don't you carry the whole thing at 40?

THE COMMISSIONER: What right had they to accept it?

15 MR. BRUNEAU: Well, they must have accepted that normal stock theory that we are entitled to carry 6,000,000 pounds right through because of the character of the business, exposed as it is to violent fluctuations of cotton prices. That is what
20 Flaxton and Varcoe suggested in their book.

MR. McRURER: No, it is nothing of the kind because in the previous year there was a most careful scrutiny made of an allowance of \$230,000 and it was reduced to \$67,000, and there was a very deliberate
25 discussion and no disclosure apparent then that there was this reserve at that time, and Mr. Elliott in his evidence at page 13177 deals with the matter. The letter is read to Mr. Elliott --

THE COMMISSIONER: Which letter?

30 MR. McRURER: That is the one in question, at

we noticed the statement contained in this letter?

MR. BRYDIE: Oh, I think they noticed it, my friend.
THE COMMISSIONER: Now do you know they noticed

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MR. BRYDIE: Well, I don't see how they could
help seeing that the cotton was carried at nine cents
a pound, and in the previous year as well, although
the market values were notoriously 30 and 40, and
we disclosed it right there in the same letter that
we are carrying 1,500,000 pounds at 40. Why don't
they say why don't you carry the whole thing at 40?
THE COMMISSIONER: What right had they to accept

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MR. BRYDIE: Well, they must have accepted that
normal stock theory that we are entitled to carry
5,000,000 pounds right through because of the
character of the business, exposed as it is to
violent fluctuations of cotton prices. That is what
Minton and Varnes suggested in their book.

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MR. BRYDIE: No, it is nothing of the kind
because in the previous year there was a most care-
ful scrutiny made of an allowance of \$250,000 and it
was reduced to \$25,000, and there was a very deliberate
discussion and no disclosure apparent then that there
was this reserve at that time, and Mr. Elliott in his
evidence at page 1317 deals with the matter. The
letter is read to Mr. Elliott --

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THE COMMISSIONER: Which letter?
MR. BRYDIE: That is the one in question, at

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page 13176. Well, I will go back a little further because Mr. Elliott introduces the letter at page 13175.

5 "Q. All right, it comes to 1919. Your figure is 30 and 50'-- that is 30 per cent discount for goods in process and 50 per cent for finished goods. 'The company's figurex is 8.55' -- no, I have read that wrong. 'Your figure is 30.50'-- that was the average price of cotton -- 'the
10 company's figure is 8.55. 1920, your figure is 40.14, the company's figure is 8'-- That is, the average price of cotton was 40.14 and the company's figure they took it into the inventory at was 8 cents a pound.

15 'A. Well, just in connection with that year I would like -- you have mentioned in connection with the year 1920 where the average closing was 40.14 and taken at 8, the effect of taking in the high shows that the company the year following
20 took a loss of \$1,600,000.

Q. Which is shown in your statement?

25 A. Yes, sir, but does not show there. You are mentioning statements where the company had issued balance sheets to shareholders concealing profits, but here is where they concealed losses they had taken.'

30 There is a letter filed in Exhibit No. 895 dated the 17th of December 1921 re Canadian Cotton Company's Income Tax Return to March 31st, 1920. This is addressed to the Commissioner of Taxation,

1915

Well, I will go back a little further because Mr. Elliott introduces the letter at page

1915.

"A. All right, it comes to 1915. Your figures are 30 and 50 -- that is 30 per cent discount for goods in process and 50 per cent for finished goods. The company's figure is 8.55 -- 50, I have read that wrong. Your figure is 30.50 -- that was the average price of cotton -- the company's figure is 8.55. That is the average price of cotton was 40.14 and the company's figure they took it into the inventory at was 8 cents a pound.

"A. Well, just in connection with that year I would like -- you have mentioned in connection with the year 1920 where the average closing was 40.14 and taken at 8, the effect of taking in the high shows that the company the year following took a loss of \$1,600,000.

.. which is shown in your statement? A. Yes, sir, but does not show there, you are mentioning statements where the company had issued balance sheets to shareholders concerning profits, but here is where they concealed losses the had taken."

There is a letter filed in Exhibit No. 285 dated 1915 at Calcutta and in London dated 1915. The letter is dated May 1915. This is a copy of the letter as it appeared in the

" Income Tax Department".

THE COMMISSIONER: That is the very letter we have been discussing.

MR. McRUER: That is the letter we have read and it is read into the record.

"That letter went to the Department? A. I have a copy of it before me.

Q. Now, this was part of the application for a reduction from profits due to loss on inventory, was it not? A. That is correct, and perhaps I might just give you the figures that are reflected.

Q. Yes, do, please? A. In respect to raw cotton as the letter states they had a poundage of 5,823,000 and we allowed a reduction of 3 cents.

Q. In response to this application? A. That is correct; in money that amounted to \$174,690"-- You see, what Mr. Elliott says is they allowed a deduction on the 5,823,000 pounds from nine cents to six, three cents less.

THE COMMISSIONER: They accepted the figures then as being reasonable.

MR. McRUER: Yes, they accepted the figure as being the figure -- the loss that they had made.

THE COMMISSIONER: But he had the letter before him. He said three cents meant carrying the value down from nine to six whereas Brown says the value should have been 30 -- 40.

MR. McRUER: 40. So the department evidently

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THE COMMISSIONER: That in the very letter we

have been discussing.

MR. MORRIS: That is the letter we have read and

it is read into the record.

"That is relevant to the Department? A. I have

a copy of it before me.

A. Now, this was part of the application for a

reduction from profits due to loss on inventory.

A. That is correct, and perhaps

it should have been in the letter that was

referred.

A. Yes, do, please?

section as the letter states they had a payment

of \$,823,000 and we allowed a reduction of \$

cents.

A. In response to this application? A. That is

correct; in money that amounted to \$154,800--

You see, what Mr. Elliott says is they allowed a deduction

on the \$,823,000 pounds from nine cents to six, three

cents less.

THE COMMISSIONER: They accepted the figures the

as being reasonable.

MR. MORRIS: Yes, they accepted the figures as

being the figure -- the loss that they had made.

THE COMMISSIONER: But he had the letter before

him. He said three cents meant carrying the value down

from nine to six whereas Brown says the value should

have been 80 -- 40.

MR. MORRIS: 40. So the department evidently

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dealt with it on the basis as if the loss they had made was from nine to six,

THE COMMISSIONER: As if they had really made a loss.

MR. McRUER: As if they really had made one.

THE COMMISSIONER: Mr. Bruneau is right in this respect; they showed them the actual figures.

MR. McRUER: Yes.

"Q. In response to this application? A. That is correct; in money that amounted to \$174,690. Then, in respect to raw cotton again a poundage of 1,670,464, although the company claimed a reduction of 30 cents per pound we only allowed 20 cents a pound, and in money that amounts to \$334,092.80. Then, the third item, that was manufactured goods or cloth as it is called in the letter, 20 per cent of manufactured cotton value, \$477,050, which extended means in money for an allowance by way of taxes \$95,410, and the sum of these three items amounts to \$604,192.80.

THE COMMISSIONER: Which was allowed.

MR. McRUER: Which was allowed.

"--which was the amount I told you the department allowed, in fact, as against their claim of \$823,901.20."

THE COMMISSIONER: Now, the department to-day allows that to stand there; they are not disturbing that to-day?

MR. McRUER: Well, of course, they are going back and re-writing.

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dealt with it on the basis as if the loss they had made

was from time to six,

THE COMMISSIONER: as if they had really made

MR. WATSON: as if they really had made one.

THE COMMISSIONER: Mr. Watson is right in this

respect; they showed them the actual figures.

MR. WATSON: Yes.

"In response to this application, A. That

is correct; in money that amounted to \$1,414,390.

Then, in respect to raw cotton again a number

of 1,670,454, although the company claimed a

reduction of 80 cents per pound we only had

80 cents a pound, and in money that amounts to

\$1,334,092.90. Then, the third item, that was

manufactured goods on cloth as it is called in

the latter, 80 per cent of manufactured cotton

value, \$447,000, which extended means in money

for an allowance by way of taxes \$35,410, and

the sum of these three items amounts to \$604,502.90.

THE COMMISSIONER: What was allowed?

MR. WATSON: Which was allowed.

"--which was the amount I told you the department

allowed, in fact, as against their claim of

\$682,301.40."

THE COMMISSIONER: What was the result of this?

MR. WATSON: The result was that the company

was allowed the sum of \$604,502.90.

and the result was

THE COMMISSIONER: I know, the re-writing will affect everything, but insofar as this particular year is concerned they are still leaving it on that basis.

5 MR. BRUNEAU: No, my lord, they have sent their assessment, but we have now pointed that out to them, and asked them to indicate in what respect they did not know what they were doing at that time.

10 THE COMMISSIONER: Pardon me, they sent you a statement now on what basis?

MR. BRUNEAU: Well, this summary -- it is an assessment in one line. I don't know just how it is made up.

15 MR. McRUER: As far as the amount they owed it really doesn't make any difference, because as Mr. Elliott pointed out --

20 THE COMMISSIONER: No, it won't make any difference to-day on an adjustment. The thing is here you have it, and have they considered that now?

MR. McRUER: On the other hand, I don't know to what extent they were just taking it at that basis. Here is what Mr. Elliott says about it.

25 "Q. And is there anything on the records to show that at that time when the company made that claim for an allowance out of profits for the purpose of loss on inventory that they had set apart in the previous four years, or five years, \$2,312,767.50 as inventory reserve? A. At 30 that time there was nothing on record to so indicate.

JAMES

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"Q. Now, just to go back to the letter of December 17th, 1921 again. In order to base a claim against the Government for an allowance for inventory losses on raw cotton they have said in this letter in respect to the 1,670,464 pounds that that was 'taken in inventory at 40.14 cents per pound being the actual cost price, was reduced to market value by a depreciation of 30 cents per pound,' and what they claimed was the loss between the 40.14 and the 30 cents, was it?

A. That is what they claimed but we allowed 20 cents."

Well then, we go on from there through the next years and see the nature of the returns that the company made. "In 1921 the company made its return on the Income Tax form T2. The printed form reads as follows:

'Certificate of Inventories: I.....

the.....(rank of official) of the Company making this return do hereby certify that the Inventories included in the above schedule were taken on a.....basis and do not contain any allowance for shrinkage or decline in value other than as follows:....."

The Company filled in, as indicating the basis, the words 'cost or market'--

THE COMMISSIONER: "Cost or market price".

MR. McRUER: "'--cost or market price' and gave no indication that there were any other deductions".

... In order to have a claim against

the Government for an allowance for inventory losses on raw cotton they have said in this letter in respect to the 1,870,404 pounds that between 'taken in inventory at 40.14 cents per pound be the actual cost price, was reduced to market value

by a depreciation of 30 cents per pound,' and what they claimed was the loss between the 40.14

and the 30 cents, was it?

A. That is what they claimed but we allowed 30

cents.

Well then, we go on from there through the next

years and see the nature of the returns that the company

made. "In 1931 the company made its return on the

Income Tax form 12. The printed form reads as

follows:

'Certificate of Inventories: I.....

the.....(Name of official) of the company

making this return do hereby certify that the

Inventories included in the above schedule

were taken on a.....basis and do not

include any inventories for which no basis was

in value other than as follows:.....

The Company filed in, as indicating the basis

the words 'cost or market'---

THE COMPANY'S BASIS OF VALUATION

THE COMPANY'S BASIS OF VALUATION

THE COMPANY'S BASIS OF VALUATION

5 So that we start on from there again with these statements made in the income tax returns, where you have the express words filled in, "cost or market price", and that was not the fact as to the basis on which the inventory was taken,

THE COMMISSIONER: Pardon me a moment; where they filled it in in that way, "cost or market price", wasn't that a rather loose way, anyhow. It should be one or the other, shouldn't it?

10 MR. McRUER: Whichever is lower.

THE COMMISSIONER: Yes, one or the other whichever was the lower. They just put in "cost or market price".

MR. McRUER: It was neither, anyway.

15 THE COMMISSIONER: Well, I mean on the face of it it was very loose.

MR. McRUER: "The return was signed by Alexander Bruce, the Secretary Treasurer with the following certificate:

20 'I.....hereby certify that the foregoing return, the supplementary statements and the additional schedules attached, if any, contain a true and complete statement of Gross Income and Deductions claimed by the above named
25 Company for the year 1921'".

So that is an explicit statement, as clear as it can be.

30 "According to Exhibit 1228 the average cost of raw cotton for that year was 13¢, but, however, it was taken into the inventory at a value of 6¢ per pound".

have the express words filled in, "cost or market price", and that was not the fact as to the basis on which the inventory was taken.

filled it in that way, "cost or market price", was that a rather loose way, anyhow. It should be one or the other, shouldn't it?

MR. MORRIS: whichever is lower.

THE COMMISSIONER: Yes, one or the other whichever was the lower. They just put in "cost or market price".

MR. MORRIS: It was neither, anyway.

THE COMMISSIONER: Well, I mean on the face of it

it was very loose.

MR. MORRIS: "The return was signed by Alexander

certificates:

"I.....herby certify that the foregoing

return, the supplementary statements and the

statements of gross income, if any, and

a true and complete statement of gross income

and deductions claimed by the above named

company for the year last."

"According to Exhibit 1283 the average cost of

it was taken into the inventory at a value of

64 per pound."

MR. BRUNEAU: They had just told them to take it in at six cents when they adjusted it. In 1921 they adjusted it, as we have seen, to six cents so I suppose they carried it at that figure.

5 MR. McRUER: Well, your income tax return didn't say so.

" The finished goods and goods in process were taken into inventory at a discount of 40% off list price.

10 In the year 1922 the certificate on the return was filled in, in the same way with the words 'at cost or market price'. The average cost of raw cotton for the year was 19.84¢ per pound. It was taken into inventory at a valuation of
15 12¢, and the finished goods and goods in process were taken into inventory at a discount of 40% off list price.

In 1923, the certificate on the return was
20 filled in, in precisely the same manner. Although the average cost of raw cotton for the year was 28.62¢ per pound, it was taken into inventory at 15¢ and the finished goods and goods in process were taken into inventory at a discount of 40% off list price".

25 Now, we see, according to Mr. Brown's statement that by 1923 the inventory reserve had been increased now to \$1,368,000 as against \$690,000 in 1921.

30 " In 1924, the certificate on the return was filled in with the same words 'cost or market

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MR. BRIDIE: They had told them to take it in at six cents when they adjusted it. In 1921 they

they carried it at that figure.

say so.

"The finished goods and goods in process were taken into inventory at a discount of 40% off

list price.

In the year 1922 the certificate on the return was filled in, in the same way with the words 'at cost or market price'. The average cost of raw cotton for the year was 19.84¢ per pound.

It was taken into inventory at a valuation of 12¢, and the finished goods and goods in process were taken into inventory at a discount of 40% off list price.

In 1923, the certificate on the return was filled in, in precisely the same manner. The average cost of raw cotton for the year was 28.63¢ per pound, it was taken into inventory at 12¢ and the finished goods and goods in process were taken into inventory at a discount of 40% off list price.

Now, we see, according to Mr. Brown's statement that by 1923 the inventory reserve had been increased now to \$1,368,000 as against \$920,000 in 1921.

"In 1924, the certificate on the return was filled in the same way with the words 'at cost or market price'.

"price", and no further information. The average cost of raw cotton for the year was 28¢ per pound, but it was taken into inventory at 15¢ and the finished goods and goods in process were taken into inventory at a discount of 40% off list price.

In 1925, the certificate on the return was filled in in precisely the same way. The average cost of raw cotton for the year was 25.9¢ per pound. It was taken into inventory at 10¢, and the goods in process were taken into inventory at a discount of 40% off list price and the finished goods at 50% off list price"-- increasing it there notwithstanding the same statement in the Income Tax return.

" In 1926, the certificate was filled in by R.G. Tolmie, Acting Secretary Treasurer, all statements in regard to inventory were left blank. There was no statement that would indicate that there was any reduction from inventory or an inventory reserve".

Now, we have got to remember this, too, my lord, that these financial statements accompany the income tax returns in all cases and were attached to them. Mr. Elliott said they are required to have the annual statements accompany the income tax returns. So when we come to 1926 when these things were left blank we have --

THE COMMISSIONER: Did nobody notice that these blanks were not filled in?

MR. McRUER: Well, I don't know whether anybody noticed it or not.

1937

"price", and no further information. The average cost of raw cotton for the year was 88¢ per pound but it was taken into inventory at 15¢ and the finished goods and goods in process were taken into inventory at a discount of 40¢ per lb.

In 1935, the certificate on the return was filled in in precisely the same way. The average cost of raw cotton for the year was 85.2¢ per pound. It was taken into inventory at 10¢, and the goods in process were taken into inventory at 10¢. Finished goods at 40¢ off list price and the finished goods at 50¢ off list price-- increasing it there notwithstanding the same statement in the Income Tax return.

In 1930, the certificate was filled in by R.O. Tormie, Acting Secretary (Finance), and in regard to inventory were left blank. There was no statement that would indicate that there was a reduction from inventory or an inventory reserve. Now, we have got to remember this, too, Mr. Lord.

Tax returns in all cases and were attached to them.

THE COMMISSIONER: Did nobody notice that

these figures were not filled in?

MR. BRYDIE: Yes, I think I have noticed that.

Correct is it?

THE COMMISSIONER: You say all statements in regard to inventory were left blank?

5 MR. McRUER: I don't mean all statements, the statement in regard to the basis on which the inventory was taken.

THE COMMISSIONER: Instead of saying as usual, cost or market.

MR. McRUER: I should not say all statements in regard to inventory.

10 THE COMMISSIONER: Instead of using the words "cost or market price" there was just a blank.

15 MR. McRUER: Just a blank, that is it, but the company had, of course, a printed financial statement where it sets out the inventory; the amounts are set out, and, as Mr. Elliott said, the only accounting practice that is accepted by the Dominion Government is cost or market whichever is the lower, and then if they claim any reserve they disclose it and discuss it. The return, your lordship will see, contains a very
20 complete statement of all the company's affairs with a statement on page four for merchandise on hand and assets of one sort and another, and the certificate of inventories is a short one--

25 "Certificate of Inventories: I.....the.....
of the Company making this return do hereby certify that the inventories included in the above schedule were taken on a.....basis and do not contain any allowance for shrinkage or decline in value
30 other than as follows:....."

Those words are still there, that they do not contain

THE COMMISSIONER: I don't mean all statements, the
statement in regard to the basis on which the inventory
was taken.
THE COMMISSIONER: Instead of having a general
cost or market.
MR. BAYDIE: I should not say all statements
in regard to inventory.
THE COMMISSIONER: Instead of using the words
"cost or market price" there was just a blank.
MR. BAYDIE: Just a blank, that is it, but the
company had, of course, a printed financial statement
where it sets out the inventory; the amounts are set
out, and, as Mr. Elliott said, the only accounting
practice that is accepted by the Dominion Government
is cost or market whichever is the lower, and when it
they claim any reserve they disclose it and discuss it
the return, your formship will see, contains a very
complete statement of all the company's affairs with
statement on page four for merchandise on hand and
assets of one sort and another, and the certificate
of inventories is a short one--
that the inventories included in the above schedule
were taken on a.....basis and do not contain
any allowance for shrinkage or decline in value
Your report will show that the cost basis

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any allowance, although it is not filled in but the other statements are filled in that there is a complete and full disclosure made on the statement.

5 "In 1927, the certificate on the T2 form was signed by A.O. Dawson, the usual certificate on the face of the form was signed certifying that the return contained "a true and complete statement of Gross Income and Deductions claimed by the above named company for the year 1927".

10 That is, a true and complete statement of the gross income and deductions.

15 "For the year 1927, although the average cost of raw cotton was 15¢, it was taken into inventory at 5¢" -- that is just one-third -- "and goods in process and finished goods were taken into inventory at a discount of 70% off list price, in each case.

20 In regard to the basis on which the inventory was taken, the certificate states 'cost'; after the words 'do not contain any allowance for decline in value other than as follows' the word 'usual' is written in".

25 That is, on the certificate, where they are required to state the basis the word "cost" is written in and after the words "do not contain any allowance for decline in value other than as follows" the word "usual" is written in. There is no indication whatever that a reserve of \$2,138,544 was in existence at that time.

30 The form is on page four which contains a specific space dealing with reserves; (v) reserve for deprec-

1987

any other statements made on the statement.

"In 1987, the certificate on the T2 form was signed by A.O. Dawson, the annual certificate on the face of the form was signed certifying that the return contained 'a true and complete statement of gross income and deductions claimed by the above named taxpayer for the year 1987'."

That is, a true and complete statement of the gross

income and deductions.

"For the year 1987, although the average cost of raw cotton was 15¢, it was taken into inventory at 25¢ -- that is just one-third -- 'and goods in process and finished goods were taken into inventory at a discount of 70% off list price, in each case."

In regard to the basis on which the inventory

the words 'do not contain any allowance for decline in value other than as follows' the word 'annual' is written in."

That is, on the certificate, where they are required state the basis the word 'cost' is written in and

decline in value other than as follows: the word 'annual' is written in. There is no indication whatsoever that

the form is on page four which contains a specific

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iation(if any, where not charged off asset accounts);
(w) reserve for bad debts (if any);(x)other reserves
(specify), and nothing filled in there to show these
other reserves.

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"In 1928, the return was filled out in exactly
the same manner.

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In the year 1928, the average price of raw
cotton was 20.5¢. It was taken into inventory
at 5¢ and finished goods and goods in process
were taken into inventory at a discount of 70%
and 50% respectively off list price".

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Then, we go on. It is suggested that the writing
of the word "usual" after the words "do not contain
any allowance for decline in value other than as
follows"-- Mr. Bruneau suggested that gave some in-
dication that there was something.

20

THE COMMISSIONER: Well now, just whereabouts is
this?

MR. McRUER: I am dealing --

THE COMMISSIONER: 1928?

MR. McRUER: Yes, my lord.

THE COMMISSIONER: The word "usual" --

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MR. McRUER: The word "usual" is written in in
1927 and 1928.

THE COMMISSIONER: Whereabouts in the form is
that word inserted?

MR. McRUER: Just let me have the form. In this
form here, my lord --

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THE COMMISSIONER: Certificate of inventories.

MR. McRUER: "Cost" was written in this blank and

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tion (if any, where not charged off asset accounts);
(w) reserve for bad debts (if any); (x) other reserves
(specify), and nothing filled in there to show these
other reserves.

In 1928, the return was filled out in exactly
the same manner.

In the year 1929, the average price of raw
cotton was 20.8¢. It was taken into inventory
at 2¢ and finished goods and goods in process
were taken into inventory at a discount of 70%
and 50% respectively off list price.

Then, we go on. It is suggested that the writing
of the word "usual" in the title "usual" is
not different for "usual" in the title "usual" is
different. The word "usual" is written in the
title that there was something.

THE COMMISSIONER: Well now, just whereabouts is

this?

THE COMMISSIONER: I am writing --

THE COMMISSIONER: I am writing --

THE COMMISSIONER: Yes, my lord.

THE COMMISSIONER: The word "usual" --

MR. MORRIS: The word "usual" is written in in

1927 and 1928.

THE COMMISSIONER: Whereabouts in the form is

any word inserted?

MR. MORRIS: That is on page 10, my lord.

THE COMMISSIONER: Yes, my lord.

THE COMMISSIONER: The word "usual" is written in in

THE COMMISSIONER: The word "usual" is written in in

then below here "usual".

THE COMMISSIONER: "Do not contain any allowance for shrinkage or decline in value other than usual". Would that mean "usual" in this particular business or as set out in former years by ourselves?

MR. McRUER: The usual that the income tax department would allow.

THE COMMISSIONER: That is what I say, in this kind of business or "usual" according to our own record from year to year, but I do not see what it could mean here. When is the first time it was used, in 1928?

MR. BRUNEAU: 1927.

MR. McRUER: When Mr. Dawson signed them in 1927 it was written for the first time.

THE COMMISSIONER: Did Mr. Elliott tell us anything about it, whether he saw it and ascribed any meaning to it?

MR. McRUER: We have got to remember, too, that the blank determining the basis on which the inventory was taken is stated to be "cost". The word "cost" is associated with this. Now, at page 13,183 Mr. Elliott says:

"Q. Now, up until that is filed have you found any indication"-- well, I had better go back further.

"Q. 1927? A. Yes, in 1927 income tax form T-2 has the following certificate on the face of it, which is a change from the certificate that was on prior T-2 forms. I will read it. I will read it as it is filled in. "I, A. O.

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then below here "usual".

THE COMMISSIONER: "Do not contain any reference
for shrinkage or decline in value other than usual."
Would that mean "usual" in this particular business
or as set out in former years by ourselves?

MR. MORRIS: The usual that the Income Tax

department would allow.

THE COMMISSIONER: That is what I say, in this

kind of business or "usual" according to our own record
from year to year, but I do not see what it could mean
here. When is the first time it was used, in 1927?

MR. WHITNEY: 1927.

MR. MORRIS: When Mr. Hanson signed then in 1927

it was written for the first time.

THE COMMISSIONER: Did Mr. Elliott tell us any-

thing about it, whether he saw it and ascribed any

meaning to it?

MR. MORRIS: No have got to remember, too, that

the blank determining the basis on which the inventory

was taken is stated to be "cost". The word "cost" is

associated with this. Now, at page 18, 198 Mr.

Elliott says:

"Now, up until that is filed have you found

any indication--well, I had better go back

there.

A. Yes, in 1927 income tax

that was the first time it was used in the

case of it, which is a change from the previous

that was the first time it was used in the

I also used it in 1927 in the

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5 "'Dawson, President of the above named Company,
hereby certify that the foregoing returns,
supplementary statements and the additional
schedules attached, if any, contain a true and
complete statement of gross income and deductions
claimed by the above named company for the year
1927. I also certify that the inventories
included in schedule 2(a) on page 2 hereof were
taken at'-- and then printed in is the word
10 'cost', and the form goes on 'basis, and do not
contain any allowance for decline in value other
than as follows' -- then the word is printed in
'usual', dated April 20th, 1928, signed 'A.O.
Dawson' in pen and ink.

15 Q. Now, up until that is filed have you found
any indication that there were these percentage
deductions for an inventory reserve as in that
year of \$2,138,544? A. Well, I do not
like to accede to the presumption that this
20 word 'usual' is an indication of a secret reserve.

THE COMMISSIONER: I do not understand that at
all."

25 THE COMMISSIONER: What is it he says? He does
not like to accede to what proposition?

MR. McRUER: "I do not like to accede to the
presumption that this word 'usual' is an indication
of a secret reserve.

30 THE COMMISSIONER: I do not understand that at all.
I understand you are dividing the periods.

MR. McRUER: Yes, quite right.

1917

herby certify that the foregoing returns,
supplementary statements and the additional
schedules attached, if any, contain a true and
complete statement of gross income and deductions
claimed by the above named company for the year
1917. I also certify that the inventories
included in schedule 2(a) on page 2 heretofore
taken at and then printed in is the word
'cost', and the form goes on 'basis', and do not
contain any allowance for decline in value other
than as follows: -- then the word is printed in
'basis', and the form goes on 'basis', and do not

newson, in pen and ink.
Now, up until that is filed have you found
any indication that there were these percentages
deductions for an inventory reserve as in that
year of \$2,188,344? A. Well, I do not
like to concede to the presumption that this

word 'manual' is an indication of a secret reserve.
THE COMMISSIONER: I do not understand that at

THE COMMISSIONER: What is it he says? He goes
not like to concede to what proposition?

MR. McNEIL: "I do not like to concede to the
presumption that the word 'manual' is an indication
of a secret reserve."

THE COMMISSIONER: I do not understand that at all.
I understand the word 'manual' is an indication
of a secret reserve.

"THE COMMISSIONER: Now then, you are not asking me to assume something has just been read which changes the situation."

MR. McRUER: No, I think it is quite otherwise.

5 The indications from the forms that have been filed throughout the period when the Income Tax Act was in force, there is nothing on them at all to indicate any reserve? A. That is correct.

10 MR. BRUNEAU: My lord, at this stage, I think we are getting matters of opinion.

THE COMMISSIONER: No. So far as the last statement, the last question that Mr. McRuer made in the form of a statement, was that up to this time there was nothing in the facts disclosed to indicate
15 there was a reserve. These are facts, that is not opinion. Now then, proceed from now on. You have just heard this document read.

BY MR. McRUER: Q. Now, is that all there is in
20 there in respect to inventory? A. Well, no, because inventory statements are in there.

Q. I mean relative to this subject matter,

A. Within the meaning of your question, yes.

BY THE COMMISSIONER: Q. Mr. Elliott read out the
25 word 'usual' as being in a certain place. Is that the first time that word occurs? A. This is the first time, my lord, that word has occurred in the returns.

Q. All right.

30 BY MR. McRUER: Q. Can you tell us the usual basis as far as the Department is concerned for the

...the ...

...to ensure something has been read which

changes the situation.

MR. McLEOD: No, I think it is quite otherwise.

...the ...

throughout the period when the income tax act

was in force, there is nothing on them at all to

indicate any reserves?

MR. McLEOD: My lord, at this stage, I think we

are getting matters of opinion.

...the ...

ment, the last question that Mr. McLEOD made in the

form of a statement, was that as to this time there

was nothing in the facts disclosed to indicate

...the ...

opinion. Now then, proceed from now on. You have

...the ...

BY MR. McLEOD: Now, is that all there is in

...the ...

...the ...

...the ...

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...the ...

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...the ...

"valuation of inventory? A. Cost or market,
whichever is lower.

5 Q. And if a company claims any exceptions to
that by any special cases then, as far as you are
concerned, it must be brought clearly before you
so that you may --

MR. BRUNEAU: That is a matter of legal opinion.

BY MR. McRUER: Q. Has that been the practice?

10 A. All returns received by the Government are
presumed by the Government officials to be in
conformity with the long established commercial
practice of stating inventories at cost or
market whichever is lower, and if any company
should depart from that usual practice we would
15 expect, and our questions are designed to that
end, to have it brought particularly to our
attention.

20 Q. Then, we proceed to 1928? A. What I have
said in respect to 1927 can be repeated in
respect to 1928 exactly.

Q. Are the words 'usual'-- A. The word
'usual'.

Q. The word 'usual' appears there in the same
place? A. Exactly."

25 And in 1929 as well.

THE COMMISSIONER: We will adjourn now.

-- The Commission adjourned at 12.35 p.m. to resume at
2.30 p.m.

which is lower.

And if a company claims any exceptions to that by any special cases then, as far as you are concerned, it must be brought clearly before you so that you may --

14874

--
AFTERNOON SESSION
--

-- On resuming at 2.30 P.M.

5 MR. McRUER: Then to continue at page 379 of the
beif - we had just discussed the affect of putting that
word "Usual" on the income tax returns and without any
other disclosure it seems to me that it was designed
more to throw the Department off their guard than
10 to give them notice of any reserve. Certainly one
could not have expected that writing in that would be
intended to indicate to the department, which required
goods in process and unfinished goods to be valued
at cost or market, whichever is the less, to have
15 noted that this method of valuation was on the basis
of a discount, say, anywhere from 40 to 70 %. In
1936, 35% on both and in 1929 the certificate was
filled out in the usual way and in 1930 neither the
words "cost" nor "usual" appear in the certificates.
20 If you will let me have the certificates. So that
it would just read:

25 "I also certify that the inventories included
in schedule 2 on page 2 hereof was taken on a
..... basis and don't contain any allowance
for decline in value other than as follows:"
and that is blank, but of course the Profit and Loss
Statement is filled in, and then there are the other
30 certificates that are required for other reserves
to be specified.

1974

EXHIBIT 1

-- On returning at 2.30 P.M.

Mr. Mowbray: Then to continue at page 279 of the

brief - we had just discussed the effect of putting the

word "Usual" on the income tax returns and without any

other disclosure it seems to me that it was designed

more to throw the Department off their guard than

to give them notice of any reserves. Certainly one

could not have expected that writing in that would be

intended to indicate to the Department that the

Department was not to be misled by the

at that time, however, as the law, the

law that this kind of violation was on the part

of a disclosure, say, anywhere from 40 to 70 %

and, as far as I know, the Department

did not know the law was in 1980 neither the

Department nor the public appear in the certificate

If you will let me have the certificate, so that

it would just read:

"I also certify that the inventories included

in schedule 2 on page 2 heretofore was taken on a

..... basis and don't contain any reference

for anything in regard to the

and that is plain, but of course the

statement is filed in the Department and the

Department has no way of knowing the

to be specified,

Then when we come to 1931 the words "Cost" and "Usual" were inserted as in the years 1927, 1928 and 1929. In the year 1932, they were inserted in the same manner. Then in the year 1933, there was a slight change in the form T 2. The certificate reads as follows:

"It is hereby certified on behalf of the above named company that this return and the statements and schedules attached contain a full and complete disclosure of the total income of the said company from all sources, that the information given herein is true in every respect, that the expenditures claimed were actually incurred on behalf of the company and that the trading, operating and profit and loss accounts and statements of assets and liabilities and other statements submitted or furnished herewith truly reflect the affairs of the said company."

THE COMMISSIONER: Then there was no blanks to fill in in that?

MR. McRUER: Then the next, Question 15 on the form deals with inventory. That is, general statement, certification of full disclosure.

"Section 15: Were inventories taken at

(a) Cost price?

(b) Market value?

If not, on what basis?"

"In answer to this question the answer is filled

1432

Then when we come to 1931 the words "Gente" and "Usual" were inserted as in the years 1927, 1928 and 1929. In the year 1932, they were inserted in the same manner. Then in the year 1933, there was a still

"It is hereby certified on behalf of the
above named company that this return and
the statements and schedules attached

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Mr. McLaughlin: Then the next question is on the

in 'at cost or list'....."

THE COMMISSIONER: I suppose "list" there would mean market?

MR. McRUER: Yes.

....."and opposite the words 'if not, on what basis?' are filled in the words 'Less usual discounts'.

Opposite item No. 28 is a quotation of the law, and opposite item No. 36 which reads as follows: 'Reserves other than for depreciation of wasting assets and bad debts' the answer is filled in 'Nil'.

The returns for the years 1934, 1935 and 1936 were filled in, in the same way."

And then Mr. Elliott has given his evidence that the Department had made a claim against the Company for taxes due under the Business profits war tax Act of \$201,369.54, and the Tax due under the Income Tax Act of \$208,216.96.

THE COMMISSIONER: And this does not claim any interest and penalties?

MR. McRUER: That is exclusive of interest and penalties.

MR. BRUNEAU: The total statement has now been received, \$440,000 including interest. \$177,000 under Business Profits War Tax Act and \$195,000 under Income Tax and \$68,000.

THE COMMISSIONER: What is the total?

MR. BRUNEAU: About \$440,000. It is

1937

in the year 1937

Mr. Bennett

Mr. Bennett: Yes.

...and opposite the words 'it not, on what basis?' are filled in the words 'these annual dis-

counts'

Opposite item No. 28 is a quotation of the law

and opposite item No. 29 which reads as follows:

'Reserves other than for depreciation of wasting

assets and bad debts; the answer is filled in 'Nil'

The answer for the years 1935, 1936 and 1937

were filled in, in the same way.

And then Mr. Elliott has given his evidence that the

Department had made a claim against the Company for

taxes due under the Business Profits Tax Act of

\$201,322.54, and the Tax due under the Income Tax Act

of \$102,815.95.

The result is: The total tax due is \$304,138.49.

interest and penalties?

Mr. Bennett: That is exclusive of interest and

penalties.

Mr. Bennett: The total statement has now been

presented, showing including interest, \$347,100.00

Business Profits Tax Act and \$125,000 under Income

Tax Act 1937, 1938.

The total is \$472,100.00

\$177,000 under Business Profit War Tax Act and \$195,000 under Income Tax and interest \$67,000, and the hundreds bring it up to another thousand, totals \$440,000.

5 We have made a claim of \$220,000 against the Business Profits War Tax Act.

MR. McRUER: Now, Mr. Dawson in his evidence seemed to consider that the statements were quite clear.

He said:

10 "The statement is quite clear. It was the same process that had been continued for twenty years. It says distinctly that these figures were taken at cost or list less usual discounts, and the usual discounts were shown
15 from year to year and were exposed to the Government every time."

Now, I submit there is no support for that contention—that is at page 382, - to suggest that these usual
20 discounts were shown to the Government every time has not been supported and is contradicted by Mr. Elliott. They found no evidence of it and the only thing that my friend Mr. Bruneau can fall back on as any suggestion
25 of disclosure to the Government is in 1921 in the letter that we mentioned this morning, and when one takes that letter in conjunction with the Certificate that was given to the Department at the time it would be quite clear that what the Department was being led to
30 believe was that the cost of the inventory in regard to the 5,823,000 pounds was 9 ¢ a pound. That was

1917

under Income Tax and interest \$87,000, and the hundreds
bring it up to another thousand, totals \$440,000.
to have made a claim of \$280,000 against the Business

to consider that the statements were quite clear.

"The statement is quite clear. It was the
same process that had been continued for
figures were taken at cost or 100% discount
discounts, and the usual discounts were shown
from year to year and were exposed to the
government every time."

Now, I submit there is no support for that contention-
that is at page 582, - to suggest that these usual
discounts were known to the Government every time

has not been supported and is contradicted by Mr. Elliott.
They found no evidence of it and the only thing that
my friend Mr. Brennan can tell back on as any suggestion
of anything in the statement is in fact in the statement
that he mentioned that nothing, and that the statement
was given in the statement of the statement of the statement
and that what the Department was being led to

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the cost and they had taken it in at their cost,
because they had given certificate under the provision
of the Act - I am sorry that we have not these do-
cuments here. It is so much better when we have the
original documents. The Income Tax Department
do not, of course, want their documents out and Mr.
Bruneau and I rather arranged that we would for the
sake of the record here have them filed. He had
objected to the admissibility on the ground that they
are confidential but for the sake of having the record
clear we agreed that one copy should be filed but
without preserving Mr. Bruneau's objection to it on
principle and I presume that an original copy could be
made available to your lordship but they do not like
to have them filed out of the Department, which is
quite natural.

In support of that we have a letter from Mr. Dawson
of February 18th, 1922, which, in this Exhibit 895,
supports the contention that I raised with the Depart-
ment in looking at the returns, (1,) the Annual state-
ment, which is filed. (2) the Return under the
Business Profits War Tax Act and the Return under the
Income Tax Act, with the representations that were
put before them, would come to the conclusion that
the cost was 9¢ and that would be what it was carried
into the inventory at to make the inventory that
figure and not the higher price of 40.14. Now, this
letter is dated February 18th, 1922 and reads as follows:

the cost and they had taken it in at their cost,
because they had given certificate under the provision
of the Act - I am sorry that we have not these do-
cuments. It is so much better when we have the
original documents. The Income Tax Department
has, of course, their own records and Mr.
Brunson and I rather arranged that we would for the
sake of the record have them filed. He has
objected to the responsibility on the ground that they
are confidential but for the sake of having the record
clear we agreed that one copy should be filed but
without preserving Mr. Brunson's objection to it on
principle and I presume that an original copy could be
made available to your Lordship but they do not like
to have the original of the document, which is
quite natural.
In support of that we have a letter from Mr. Brunson
of the 17th June, 1941, which is in this bundle and
supports the contention that I raised with the Inland
Revenue in looking at the returns, (1) the annual state-
ment, which is filed, (2) the return under the
Business Profits Tax Act and the Return under the
Income Tax Act, with the representations that were
put before them, would come to the conclusion that
the cost was 92 and that would be what it was over-
laid the inventory at to make the inventory that
they set out the value of 100.

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"Inspector of Taxation,
137 McGill Street,
Montreal, P.Q.

Dear Sir:

Attention Mr. Frigon

In our letter to you of the 16th inst., we
stated that we would give you some further
particulars in regard to the reduction...."

Probably I had better read the 16th of February so that
we will have the same thing together.

THE COMMISSIONER: You have set it out here on
page 376. Yes., you had better read it.

MR. MCURER: It is from Mr. Dawson to the Inspector
of Taxation:

"Attention Mr. Frigon

With reference to the deduction from Profits
of this Company for the year ending 31st March
1920, of \$823,901.20 on account of Inventory
depreciation, we have to state in addition to what
we wrote you in our letter of December 17th last,
that this amount was arrived at by reference
to quotations for the same grades of materials
within twelve months of 31st March 1920.

If you consider it necessary we are prepared
to substantiate this by quotations, which we have or
can procure.

We wish also to mention that up to the time
that the market broke our inventory was not
lower in quantity, but on the contrary it gradually
increased."

14873

"Inspector of Taxation,
127 McGill Street,
Montreal, P.Q."

Dear Sir:

ALBERTA POWER CO. LTD.

In our letter to you of the 15th inst., we

stated that we would give you some further

particulars in regard to the deduction...."

Probably I had better read the 15th of February so the

we will have the same thing together.

THE COMMISSIONER: You have set it out here on

page 376. Yes., you had better read it.

MR. MURPHY: It is from Mr. Dawson to the Inspector

of Taxation.

ALBERTA POWER CO. LTD.

With reference to the deduction from profits

of this company for the year ending 31st March

1930, of \$32,901.20 on account of inventory

depreciation, we have to state in addition to what

we wrote you in our letter of December 15th inst.,

that this amount was arrived at by reference

to quotations for the same grades of materials

within twelve months of 31st March 1930.

If you consider it necessary we are prepared

to substantiate this by quotations, which we have

our records.

We wish also to mention that up to this time

that the market broke our inventory was not

that is, we have not been able to obtain any quotations

for the same materials.

Now, on the 18th he goes into some details:

In our letter to you of the 16th instant, we stated that we would give you some further particulars in regard to the reduction made in our cotton inventory of March 31st, 1920, in making our returns to the Government. These particulars we have pleasure in giving you below.

We reduced the value of our high grade cotton to 10.14¢ per pound for the reason that this was the value of such stock in the closing months of 1920, and for considerably more than the first half of 1921."

Now, the evidence is that the value was 40.14.

MR. BRUNEAU: That is March.

THE COMMISSIONER: I don't know what part of 1920 that refers to.

MR. McRUER: Yes, I see.

THE COMMISSIONER: The figures here are for 1920, 40.14 and for 1921 13 cents.

MR. McRUER: Then he goes on to say:

During that period we bought full 1-1/16 white cotton, from as far West as California, and landed it in our Eastern Mills at 10¢, and the same grade slightly spotted we landed in our Mills at 9¢ per pound.

In the same period we bought our very highest grade of Strict Middling Commercial 1-1/8 cotton at 10 1/2¢ landed Eastern points. This high grade

14350

Now, on the 18th he goes into some details:

In our letter to you of the 10th instant, we

stated that we would give you some further

particulars in regard to the redemption made in

our cotton inventory of March 31st, 1930, in

making our returns to the Government. These

particulars we have pleasure in giving you below.

We received the value of our high grade

was the value of such stock in the closing month

of 1930, and for considerably more than the first

half of 1931.

Now, the evidence is that the value was 40.14.

MR. MURPHY: That is correct.

That refers to.

MR. MURPHY: Yes, I see.

THE COMMISSIONER: The figures were for 1930,

40.14 and for 1931 13 cents.

MR. MURPHY: Then he goes on to say:

During that period we bought full 1-1/2 white

cotton, from as far west as California, and

landed it in our eastern mills at 10c, and

the same grade slightly spotted we landed in our

mills at 9c per pound.

In the same period we bought our very

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high grade long staple cotton usually costs us from one to two cents a pound over our medium grades and slightly shorter staple.

Our low grade cotton that we reduced on our Inventory to 6¢ a pound is off coloured stock that we dye into Blues, Blacks, etc., and under normal conditions such cotton forms the basis for the major portion of our business. Usually such cotton sells, according to the supply, from five to ten cents a pound under our high grade cotton. For instance, in August 1920 we were paying 18¢ to 22¢ for our low grades, and we were paying 29¢ for our high grades. Of course, when cotton broke so badly later in the year 1920, low grades did not fall proportionately, - had they done so their value would have disappeared altogether. Good low grade cotton, however, was selling freely at 6¢, and it was offered to us at that figure. For instance, Newburger & Co. of Memphis, from whom we bought large quantities of this cotton in the first half of 1920 at 20¢, and which we thought was excellent value, later offered us all we cared for of this same stock at 6¢ delivered at our Mills. Unfortunately we were unable to take on an additional supply because our stock was so heavy, and the outlook for business was so exceedingly bad. All we could do under the circumstances was to face our loss,

and slightly shorter staples.

Our low grade cotton that we reduced on our

Inventory to 64 a pound is off colored stock

that we dye into Blues, Blacks, etc., and under

normal conditions such cotton forms the basis

for the major portion of our business. Usually

such cotton sells, according to the supply, from

five to ten cents a pound under our high grade

cotton. For instance, in August 1930 we were

paying 18¢ to 22¢ for our low grades, and we

when cotton broke so badly later in the year

1930, low grades did not fall proportionately.

had they done so their value would have disappeared

altogether. Good low grade cotton, however, was

selling freely at 6¢, and it was offered to us

at that figure. For instance, Newburger & Co.

of Memphis, from whom we bought large quantities

of this cotton in the fall of 1930 at 6¢,

and which we thought was excellent value, later

at 6¢ delivered at our Mills.

unable to take on an additional supply because

our stock was so heavy, and the outlook for

under the circumstances was so dark.

14882

and reduce to the new value the cotton we had
on hand.

If any further particulars are desired we
will be pleased to furnish same to the extent of
our ability."

I do not think the next letter has any bearing on it,
unfortunately Mr. Breadner is dead. In the first
place this applies to the raw cotton only and not to
the goods in process and in the second place they had
taken themselves a reduction in inventories that year
which had the effect of absorbing a large part of the
profits. Then later they got an additional reduction
and then they commenced from then on to again absorb
their profits by writing down inventory wright up until
the year 1936, and no suggestion as far as Mr. Elliott
is concerned -and he has been there now as commissioner
of Income Tax for some time - that he has had any
disclosure to him. On the contrary, he says that
matters have not been disclosed to him and he has
taken the proper action and that is, to ~~be~~ bill the
Company for the tax that he said is due. It is only
relevant in our inquiry probably from two or three
aspects. One is the manner in which the Company
has treated the Government that has given it the tariff
protection. Two, how far its complaint about the
burden of taxes are justified in view of the fact
that it has not been paying its just taxes and three,
how far its statements published are reliable statements

✱ 550212

If any further particulars are desired we

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which had the effect of absorbing a large part of the

take the proper action and that is, to see that the

of profits, because there is this distinction between this Company and the Dominion Textile Company. As far as I think the evidence shows the Dominion Textile Company had a constant basis of valuation of inventory and although it was not cost or market, it did not fluctuate back and forth according to whether the Company wished to conceal part of its profits or wished to conceal a loss, there was no fluctuation, they had their same basis of valuation and carried it straight through, and while it does have the effect of concealing profit, I do not think one can fairly say that the evidence shows that it was done for that purpose, because it was in effect before the taxing statutes were passed at all, but it is quite the contrary with Canadian Cottons. We find them adopting this special manner of valuation when the taxing statutes come along.

Now, I deal with the Dominion Textile Company at page 386 of mybrief. I am leaving Canadian Cottons.

THE COMMISSIONER: I see you quote cases here.

MR. McRUER: Yes, it is well known law as to ---

THE COMMISSIONER: You set out the law as you see it.

MR. McRUER: Yes, my lord, that is all. It is the duties of disclosure.

THE COMMISSIONER: Now we come to Dominion Textile.

MR. McRUER: Yes.

of profits, because there is this distinction between
this company and the Dominion Textile Company. The
fact is that the company which the Dominion Textile
Company has a contract with is not a company of
and although it was not cost or market, it did not
therefore have any effect on the profits of
Company wished to conceal part of its profits or at least
to conceal a part, there was no intention, that
and their own part of the profits and losses is
through, and while it does have the effect of concealing
profits, I do not think one can fairly say that the
evidence shows that it was done for that purpose, be-
cause it was in effect before the taxing statutes re-
passed at all, but it is quite the contrary with
the law then adopting this ap-
proach of valuation when the taxing statutes come
into effect. I deal with the Dominion Textile Company at
page 306 of my report. I am leaving Canadian Cotton
THE COMMISSIONER: I see you quote cases here.
MR. MORRIS: Yes, it is well known law as to --
THE COMMISSIONER: You set out the law as you see
MR. MORRIS: Yes, my lord, that is all. It is

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"In the Annual Report for the year ending 31st March, 1936, Sir Charles Gordon, President of Dominion Textile Company Limited, makes the statement to the shareholders:

"While the Company has an issue of preferred stock, it is evident that the Governments of one kind and another are the real preferred shareholders as their takings this year represent earnings of \$42.00 per share on the Company's Preferred Issue."

It is curious that a Company in its official statement put out to the public should emphasize the taxes that this Company has to pay.

THE COMMISSIONER: How much would that be, as a matter of curiosity. What is their preferred issue?

MR. McRUER: Mr. Howson will give it to us just in a moment. \$819,541.

THE COMMISSIONER: Is that taxes paid to the Dominion Government?

MR. McRUER: No, to all governments - Dominion, Provincial Corporation tax, Ontario and Quebec, and Municipal Property taxes and all that sort of thing.

MR. HEWARD: Says must be paid out or set throughout to meet the various taxes which exact tribute from manufacturers.

MR. McRUER: I like the words "exact tribute from manufacturers." I think they are engaged in exacting a little bit of tribute themselves. And the

of Dominion Textile Company Limited, makes the statement to the shareholders:

"This year's earnings are in excess of \$1,000,000. It is a record for the Dominion Textile Company Limited, and another one of the kind and another one of the kind preferred shareholders as their earnings this year represent earnings of \$1,000,000 per share on the company's preferred issue."

It is curious that a company in its official statement put out to the public should emphasize the fact that this company has to pay.

THE COMMISSIONER: How much would that be, as a matter of fact?

MR. HOBBS: Mr. Hobbs will give it to us just

THE COMMISSIONER: Is that taxes paid to the

MR. HOBBS: No, to all governments - Dominion, Provincial Corporation tax, Ontario and Quebec, and

MR. HOBBS: They must be paid out or set

throughout to meet the various taxes which exact

MR. HOBBS: I like the word "exact" tribute from

And the

extraordinary thing is that they include these taxes in their costs and exact them from the consumers. I don't know why they should complain. They do not lose anything by it, because I quote Mr. Gordon's express evidence in regard to the Income Tax and, of course, it goes without saying that the other taxes are included in their costs.

"Q. Yes, but your sale prices over the period are designed to make a profit?

A. Yes, and to pay income tax.

Q. They are designed to pay income tax.

A. Absolutely."

So no question about that. When they fix their prices they say, "We will charge the consumer a price that will include our Income Tax.

THE COMMISSIONER: If they are passing their income tax onto the consumer there is no reason why it should not be disclosed as fully as any other tax.

MR. BRUNEAU: I think my learned friend says with Adam Smith that Corporations profits are always passed on to the consumer.

THE COMMISSIONER: You mean taxes on trading profits?

MR. BRUNEAU: Yes.

if

THE COMMISSIONER: But that is the case, then there is no secrecy about it, if someone else is paying it.

MR. McRUER: I should think if that is true

extraordinary thing is that they include those taxes
in their costs and exact them from the consumers.
I don't know if you would agree.
not lose anything by it, because I quote Mr. Gordon's
express evidence in regard to the income tax and, of
course, it was simply saying that the other taxes
are included in their costs.

"A. Yes, but your sale prices over the

period are designed to make a profit?

A. Yes, and to pay income tax.

Q. They are designed to pay income tax.

A. Absolutely."

No no question about that. When they fix their

prices, they say, "we will charge the consumer a price

that will include our income tax.

THE COMMISSIONER: If they are passing their

income tax onto the consumer, there is no reason why

it should not be disclosed as fully as any other tax.

MR. BRUNDAU: I think my learned friend says

that the tax is not disclosed as fully as any other tax.

passed on to the consumer.

THE COMMISSIONER: You mean taxes on trading

MR. BRUNDAU: Yes.

if

THE COMMISSIONER: But it is not, and

there is no secrecy about it, it someone else is

paying it.

THE COMMISSIONER: I should think if that is true

14886

then there ought to be in respect to all these protected companies no secrecy whatever in regard to income tax returns and everything else.

5 THE COMMISSIONER: Certainly, any more than the excise tax and customs tax.

MR. McRUER: But I think the principle is absolutely wrong.

10 THE COMMISSIONER: I still wonder whether they can get off that way. If somebody pays my income tax and the Department knows that they simply add it to my income and tax me on the higher basis, and they are entitled to do that. If this is a tax - I have not
15 looked at the Act recently - but if it is to be paid out of profits, as I understand it is as a direct tax and not to be handed on and get the consumers to pay for it, I wonder whether you should not add that to the profits and tax them over again.

20 MR. McRUER: I think Mr. Rowson put it correctly in his evidence when he said it is sharing your profit with the government. It is the government taking so much of your profits.

25 THE COMMISSIONER: You must first stop somewhere and say, "This is my profit," and then you pay tax on that, but as you put your tax into your cost first then you start from false basis.

30 MR. McRUER: And it is very inequitable because some people are in a position - take a salaried person, he has to pay income tax on his salary.

then there ought to be in respect to all these
protected companies no secrecy whatever in regard to
income tax returns and everything else.

THE COMMISSIONER: Certainly, any more than the

company has any business law.

MR. MOORE: But I think the principle is absolutely

wrong.

THE COMMISSIONER: I still wonder whether they
get off that way. If somebody pays my income tax

and the Department knows that they simply add it to
my income and tax me on the higher basis, and they

are entitled to do that. If this is a tax - I have
looked at the act recently - but it is to be paid

out of profits, as I understand it is as a direct tax
and not to be handed on and get the consumers to pay

the profits and tax them over again.

MR. MOORE: I think so. I think it is a tax on profits
in his evidence when he said it is sharing your

profits with the Government. It is the Government
taking so much of your profits.

THE COMMISSIONER: You must first stop somewhere
and say, "This is my profit," and then you pay tax

on that, and so you pay tax on the tax you pay

and so you pay tax on the tax you pay on the tax you pay

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He cannot pass that on to any other body for to pay it.
But yet we have a corporation of this sort which comes
up and says, "Yes, we provide for income tax but you
pay it when you buy our goods. We have planned our
business in that way, it is not our business in any
way."

MR. KELLOCK: The Companies Act recognized that,
as distinct from the Income Tax Act.

MR. COMMISSIONER: Recognizes what?

MR. KELLOCK: That Income Tax is paid out of
profits and there is no need so far as the Company
is concerned until it has been paid. That is since
1934.

THE COMMISSIONER: That is in the Act?

MR. KELLOCK: Yes.

THE COMMISSIONER: If it is, then that changes
the entire nature of the tax. That is the distinction
between direct and indirect tax. The indirect tax
is something you pass on to the other person and the
direct tax is something to be paid by you.

MR. McRUER: I think my friend is entirely mis-
interpreting the provisions of the Companies' Act.

THE COMMISSIONER: Mr. Kellock will show it.

MR. KELLOCK: It is in my factum, my lord, section
(D) at the beginning, page 2, at the top, sub-section 3.

THE COMMISSIONER: Yes, that will have to be
looked into. It is mentioned twice - the statement.

Whatever the statement is, of course I don't know;

"...(3) The said statement of income and Expenditure shall show separately net operating profit before the depreciation, obsolescence and depletion and income tax...."

and later on says:

"Reserve for income taxes imposed by any taxing authority in Canada...."

MR. McRUER: Your lordship will see that that is authority just exactly the other way. This is a statement of what the statement to the shareholders is to show.

THE COMMISSIONER: I thought it meant to the taxing authorities?

MR. KELLOCK: No.

MR. McRUER: And in the first place they must show their operating profits before depreciation, obsolescence and depletion and income tax. Now, that is, that the income tax cannot be passed on as operating profit, to begin with. They must show any reserve they set up for Income Tax in the statement to the shareholders. In other words, they must show what is available for distribution to the shareholders, that you cannot show your profit and leave the shareholders to believe they are entitled to get that without having set up a reserve for income tax. That is all it means. There is nothing in the world in that provision to suggest that the consumers

What I want to know is, of course, I don't know

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are supposed to pay the income tax of corporations.
Otherwise it is idle to tax corporations on profits,
they are not dividing their profits with the govern-
ments, it is simply increasing the burden on the
5 consumers. Now, I submit it would be a most dangerous
precedent to establish that corporations getting the
benefit of customs tariff are entitled to pass on their
income tax to the consumers and not make those that
10 earn the profits suffer by the tax.

THE COMMISSIONER: In the first place, the tax
is on the profits, is not it?

MR. McRUER: Yes.

15 THE COMMISSIONER: I suppose if there is no profit
there is no tax?

MR. McRUER: No.

20 THE COMMISSIONER: If they include something in
operating expense as income tax and give out without
no profits, you will see the results we have because
then they would be charging something as income tax
and not paying anything at all. So that it looks
to me --- of course that will require more
25 consideration, but I am afraid it is against you.

MR. KELLOCK: I will argue it a little later.
Your lordship sees in the last few lines there is no
net profit so far as the company is concerned until
the income tax comes out," balance showing net profit
30 or loss for the financial period".

1934

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THE COMMISSIONER: In the first place, the tax
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MR. HALL: Yes.
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there is no tax?

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MR. HALL: No.
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operating expenses as income tax and give out without
no profits, you will see the results we have because
then they would be charging something as income tax
and not paying anything at all. So that it looks

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to me --- of course that will require more
consideration, but I am afraid it is against you.
MR. HALL: I will argue it a little later.

25

Your lordship sees in the last few lines there is no
net profit so far as the company is concerned until
the income tax comes out, balance showing net profit
by less the income tax.

30

MR. McRUER: That is for distribution to the shareholders. This is a statement to the shareholders.

MR. KELLOCK: Yes, that is company net profit.

5 MR. McRUER: My friend is fond of playing with that word "net profits".

THE COMMISSIONER: If your salary is \$20,000 a year and your income tax on that is \$2,000 you could say, I suppose, if you wanted to, that your net salary was
10 \$18,000, but it is a false way of talking. It is \$20,000 and then you take your taxes off that.

MR. McRuer: The whole theory of income tax is based on the fact that people that actually have incomes are going to share up a portion of that income with the
15 government so as to relieve the people who have not got income of the obligation, after having to pay it on the property they own or something of that sort, on their sales tax, &c. It is supposed to get at
20 and take a part of the income that people have got and supposed to take part of the income that the company has got and get it before the shareholders get it, but under this system we pass it on to our
25 consumers. They pay it, and then we settle with our shareholders.

MR. KELLOCK: There is just one point. I think, with respect, that there is a difference between the income of an individual and the income of a company
30 that is carrying on a commercial enterprise, because the income of the company when it pays income tax,

MR. McRURK: That is for distinction to the shareholders. This is a statement to the shareholders.

MR. KILLOCK: Yes, that is company not profit.

MR. McRURK: My friend is fond of playing with the word "net profit".

THE COMMISSIONER: If your salary is \$20,000 a year and your income tax on that is \$2,000 you could say, I suppose, if you wanted to, that your net salary was \$18,000, but it is a false way of talking. It is \$20,000 and then you take your taxes off that.

MR. McRURK: The whole theory of income tax is based on the fact that people that actually have income are going to share up a portion of that income with the government so as to relieve the people who have not got income of the obligation, after having to pay it on the property they own or something of that sort, on their sales tax, etc. It is supposed to get at and take a part of the income that people have got and supposed to take part of the income that the company has got and get it before the shareholders get it, but under this system we pass it on to our consumers. They pay it, and then we settle with them.

MR. KILLOCK: There is just one point. I think, with respect, that there is a difference between the income of an individual and the income of a company that is carrying on a commercial enterprise, because the income of the company is not the income of the

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that is not the end of it. The balance is then distributed among the shareholders who again pay taxes, my lord.

5 THE COMMISSIONER: Oh, that is something quite different.

MR. KELLOCK: And the Government ultimately gets it, whereas an individual earning a salary he is finished when he pays.

10 MR. MCNULTY: The Government ultimately does not get it. That is a fallacious basis to put on it. If it goes to somebody who has a taxable salary the Government will get it but if it does not the Government won't and this method is taken of getting it before it gets distributed and before it is carried into reserve. 15 Take, for instance, the profits are taxable now irrespective of whether set aside for reserves or not, and that is one thing that is important.

20 THE COMMISSIONER: You see, Mr. Kellock, if the income tax were not a direct tax, provinces could not impose it. They could only impose direct taxation. But provinces do impose income tax on companies, so that by its nature it is intended to be a direct 25 tax, which mean that it is not passed on. The first person taxed is the one who pays it.

MR. KELLOCK: I think that last case which went to the Privy Council, down in Halifax, throws a 30 little different concept there of what the direct tax was for the purpose of taxation - I mean from the

that is not the end of it. The balance is taken

distributed among the shareholders and again my

share, my share.

THE COMMISSIONER: Oh, that is something quite

different.

MR. KELLICK: And the Government ultimately gets

it, whereas an individual earning a salary he is

paying tax on it.

MR. MONTGOMERY: The Government ultimately does not

get it. That is a fallacious basis to put on it.

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we're not and this method is taken of getting it before

gets distributed and before it is carried into reserve

and, for instance, the profits are made now

irrespective of whether set aside for reserves or not.

and that is one thing that is important.

THE COMMISSIONER: You see, Mr. Kellick, if the

income tax were not a direct tax, provinces could not

pay it. They could not have direct taxation.

and that is the reason why we are compelled,

so that by its nature it is intended to be a direct

tax, which means that it is not passed on. The first

person taxed is the one who pays it.

MR. KELLICK: I think that last one which went

on the 1914-15 bill, was in relation to the

1914-15 bill, which was the first bill

and the one which was passed in 1914.

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standpoint of constitutional power, and the fact as to whether it was or was not passed on, was the standard that it used to be in determining whether the tax be a direct tax or not. I have forgotten the name of that case, but I think that changes quite a bit the view ---

THE COMMISSIONER: You mean changes laid down in the Bank of Toronto vs. Lamb.

MR. KELLOCK: I think it does. The name of the case I think is Fairfax, if I am not mistaken.

MR. McRUER: Well, in respect to this I am prepared to say this, my lord, and make this suggestion - that in regard to a company that derives tariff protection and that has profit from the protection that is given to the company by the tariff, that it owes to the government to pay out of those profits its income tax without passing it on to the consumer. That is, as I said before, adding a little insult to injury, first earning profits by taxing the consumers and then passing their income tax on those profits onto the consumers. It looks to me as though the consumer is the man that must pay everything and I would rather think that it would be more becoming to these industries to come to this Commission and say: "If we have followed this policy in the past we do not intend to follow it any more," rather than asserting that it was their right and that we propose to do it

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to whether it was or was not passed on, was the question
that it used to be in determining whether the tax
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protection and that has profit from the protection
that is given to the company by the tariff, that it
owes to the government to pay out of those profits
its income tax without passing it on to the consumer.
That is, as I said before, adding a little insult to
injury, first earning profits by taxing the consumer
and then passing their income tax on those profits
onto the consumer. It looks to me as though the
consumer is the man that must pay everything and I
would rather think that it would be more becoming
to these industries to come to this Commission and say
"we have followed this policy in the past we do
not intend to change it and we want to know what
the result will be if we do so."

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in the future.

Now, we go to page 388, my lord, to deal with the inventory reserve of the Dominion Textile Company, middle of the page.

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THE COMMISSIONER: Their inventory reserve?

MR. McRUER: Yes, my lord.

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THE COMMISSIONER: I asked you before you began, do you conclude from this that they also have a reserve that is taxable and have not paid taxes?

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MR. McRUER: Yes, but it is different from Canadian Cottons because they maintained a constant basis and with the exception that the inventory might expand and contract the amount of the reserve would remain constant, if their inventory always remained at the same prices and at the same quantity, the amount of the reserve would be the same, but the reserve does expand and contract with inventory and that as it expanded and contract it would either add to profits or take away from profit. If the reserve, for instance, was \$2,000,000 one year and reduced by contracting prices---

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MR. HEWARD: Not contracting prices, contracting volumes.

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MR. McRUER: Contracting volume, but your percentage discount, if the prices went down, they would be the same and then the arbitrary discounts would be the same. So that if the price went down that would also contract the amount of your inventory, as I take it, but it

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5 does not make much difference. Certainly contracted
in volume when subjected to these discounts, the
discounts would be heavier and therefore would absorb
part of the profit, and it becomes important then
in regard to the income tax as to these years that
there would be no profit. If it was taken on the
proper basis there probably would be profit, and just
to what extent ---

10 MR. HEWARD: And vice versa, of course.

MR. McRUER: And vice versa.

THE COMMISSIONER: I understand that is one aspect.
What about the other?

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20 (Page 14896 follows)

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THE COMMISSIONER: What about the other aspect of disclosure or non-disclosure?

5 MR. McRUER: It is divided into two aspects, one portion of which was disclosed and the other portion of which was not disclosed.

MR. HOWARD: You are not talking about the Income Tax Department. We have no evidence of that at all.

10 MR. McRUER: We have no evidence as to what was disclosed to the Income Tax Department, but dealing with the public -- well, I probably better stick to my brief and then I am absolutely accurate as to what was and what was not disclosed.

15 THE COMMISSIONER: You say certain things were not disclosed to the shareholders?

MR. McRUER: Yes.

THE COMMISSIONER: That ought to have been?

20 MR. McRUER: Yes. We did not question Mr. Elliott in regard to the Dominion Textile Company so that we haven't that evidence.

THE COMMISSIONER: But he has the whole thing before him.

25 MR. McRUER: He has the whole thing before him. Your lordship will recollect we just got the details of it within the last day or two. We had Mr. Gordon give us the complete story of how the inventory was taken, a very elaborate way. They had first a raw cotton reserve, and then in addition to that they had a reserve for goods in process and finished goods which I have set out in detail in my brief, the manner

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THE COMMISSIONER: Now what was the substance of disclosure or non-disclosure?

MR. MONTGOMERY: It is divided into two aspects, one portion of which was disclosed and the other portion of which was not disclosed.

MR. MONTGOMERY: You are not talking about the Income Tax Department. We have no evidence of that at all. We have no evidence as to what was disclosed to the Income Tax Department, but dealing with the public -- well, I probably better stick to my brief and then I am absolutely accurate as to what was and what was not disclosed.

THE COMMISSIONER: You say certain things were not disclosed to the shareholders?

THE COMMISSIONER: That ought to have been

MR. MONTGOMERY: Yes, we did not question Mr. Wilkie in regard to the Dominion Textile Company as that we haven't that evidence.

THE COMMISSIONER: But he has the whole thing before him.

MR. MONTGOMERY: He has the whole thing before him. Your lordship will recollect we just got the details of it within the last day or two. We had Mr. Gough give us the complete story of how the inventory was taken, a very elaborate way. They had first a raw cotton reserve, and then in addition to that they had a reserve for goods in process and finished goods which I have set out in detail in my brief, the manner

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in which they arrive at these valuations. There is one correction I think Mr. Heward wants to make and when I come to it we will correct it in the brief. I have just got one thing reversed.

5 MR. HEWARD: If I might interrupt I think I might interpose to say this, that we feel ~~that~~ we have disclosed everything to the Income Tax Department, and since the matter is referred to them our auditors and they are going into it very fully over the whole
10 term of years and giving it the most careful study. We feel we have -- we might even say we have a possible hope when the thing is given its fullest study we might be entitled to get something back, but until the study is complete it is an open question
15 as to whether we are able to get something back or whether we may owe them a little, but we feel we have always given the most full disclosure to the Income Tax Department.

20 THE COMMISSIONER: If you get anything back you will be grateful to Mr. McRuer.

MR. HEWARD: Yes, we ought to thank him for that.

MR. McRUER: You might get enough to pay counsel
fee.

25 MR. HEWARD: Or the day's pool.

MR. McRUER: You are evidently not hoping to get much back then.

MR. HEWARD: It is an open question as to whether it goes one way or the other, but we have hopes we will get quite a substantial amount back, and then
30 I will thank my learned friend very much.

is one correction I think Mr. Howard wants to make
and when it comes to it we will correct it in the brief.
I have just got one thing reversed.
MR. HOWARD: It is right statement I think I
might interpose to say this, that we feel that we
have discussed everything to the Income Tax Department
and since the matter is referred to them our auditors
and they are going into it very fully over the whole
term of years and giving it the most careful study.
We feel we have -- we might even say we have a
possible hope when the thing is given its fullest
study we might be entitled to get something back,
but until the study is complete it is an open question
as to whether we are able to get something back or
whether we may owe them a little, but we feel we have
always given the most full disclosure to the Income
Tax Department.
THE COMMISSIONER: If you get anything back you
will be grateful to Mr. Howard.
MR. HOWARD: Yes, we ought to thank him for that.
MR. HOWARD: You might get enough to pay counsel
fees.
MR. HOWARD: You are evidently not looking to
get much back then.
MR. HOWARD: It is an open question as to whether
it goes one way or the other, but we have hoped we
will get back a substantial amount back, and then
I will have to be satisfied with that.

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MR. McRUER: Well, I am not concerned in the slightest bit one way or another. It is only a question of principle, and that is that the valuation of inventory should be on the basis on which the government expects it to be valued, and that the statements that are made in regard to valuation of inventory should be correct.

Now, as I say, these two reserves were carried by this company. When we come to the statements that were made, the financial statements that were made that went to the Government and the shareholders, up until the year 1933 there was no mention of any reserve against raw cotton, that is, although the reserve had amounted to a million dollars. There is no mention of any reserve against raw cotton at all.

THE COMMISSIONER: Up until what time?

MR. McRUER: 1933, my lord.

MR. HEWARD: Where are you at now?

MR. McRUER: The foot of page 388.

"The Balance Sheet entry for the year 1932 is typical of the entries that occurred in previous years. Under the heading 'Assets' there is the following entry: 'Raw Cotton, \$824,315.74'.

In the year 1933 under the heading 'inventories' the entry is as follows: 'Raw Cotton, less Reserve \$813,725.09'.

So that your lordship will see there is there an indication that there is a reserve but up until 1933 there was no indication there was a reserve. That was

Mr. McMillan: Well, I am not concerned in the

slightest with one way or another. It is only a

question of principle, and that is that the valuation

of inventory should be on the basis on which the

government expects it to be valued, and that the

statements that are made in regard to valuation of

inventory should be correct.

Now, as I say, those two reserves were combined

by this company. When we come to the statements

that were made, the financial statements that were

made that went to the government and the statements

up until the year 1935 there was no mention of any

reserve against raw cotton, that is, although the

reserve had amounted to a million dollars.

Is there mention of any reserve against raw cotton in

all.

Mr. McMillan: Yes, until the year 1935.

Mr. McMillan: 1935, my friend.

Mr. McMillan: Where are you at now?

Mr. McMillan: The foot of page 200.

"The balance sheet entry for the year 1935 is

Applied of the entries that occurred in previous

years. Under the heading 'Assets' there is

the following entry: 'Raw Cotton, 1934, \$1,234,567'.

In the year 1935 under the heading 'Assets'

entries, the entry is as follows: 'Raw Cotton,

1935, \$1,234,567'.

Is that your friendship will see there is there an in-

ventory for 1935 is a reserve but up until 1935

there was no inventory, there was a reserve. That

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stated to be the value of the raw cotton.

" In the years 1934, 1935 and 1936 a similar entry appears.

In respect to the inventory of goods in process and finished goods, the method of taking the inventory is described in Exhibit 945 and the evidence of Mr. Gordon".

Now, I do not intend to go into that complicated method.

It was not on the basis of cost or market whichever was lowest. They took arbitrary discounts in the mills. After they had taken inventory they took certain discounts in each mill. They took certain values that had been in force since 1910 or longer, and then these went to head office and the head office wrote off summary discounts there covering all the mills, and in one year about \$300,000.

MR. HEWARD: The point is that the percentage discounts were taken off in the mills. Page 390 -- the percentage discount was taken off in the mills and the summary discounts, which were round amount discounts applied to each plant, were taken off at head office. I think there is a mistake there. This should go up here to the next paragraph.

MR. McRUER: Then, my friend complains --

MR. HEWARD: I am not complaining.

MR. McRUER: My friend points out that the third paragraph from the bottom, -- "these discounts are taken before the inventory reaches Head Office" --

THE COMMISSIONER: Where is that.

to be the value of the new system.

" In the years 1934, 1935 and 1936 a similar

entry appears.

In respect to the inventory of goods in

process and finished goods, the method of taking

the inventory is described in Exhibit 94B and

the evidence of Mr. Gordon.

Now, I do not intend to go into that complicated method

it was not on the basis of cost or market whichever

was lowest. They took arbitrary discounts in the

mills. After they had taken inventory they took

certain discounts in each mill. They took certain

values that had been in force since 1910 or longer,

and then these went to head office and the head office

wrote off summary discounts there covering all the

mills, and in one year about \$800,000.

MR. GORDON: The point is that the percentage

discounts were taken off in the mills. Page 890 --

the percentage discount was taken off in the mills and

applied to each plant, were taken off at head office.

I think there is a mistake there. This should go up

MR. GORDON: Then, my friend complains --

MR. GORDON: I am not complaining.

MR. GORDON: My friend points out that the

third paragraph from the bottom, -- these discounts

the discounts were taken off in the mills.

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MR. McRUER: The third paragraph from the bottom, page 390. "When the inventory reaches head office it is then subjected to further discounts".

THE COMMISSIONER: You say something should be added there?

MR. HEWARD: The last sentence of that paragraph should go in after the first sentence; that is the whole thing.

THE COMMISSIONER: "In the cloth room"--

MR. HEWARD: "For example, on the inventory in the Weaving Room they are 20% and 10%. These discounts were set up many years ago, (on the inventory). In the Cloth Room they are 20% and 5%". Those two last sentences should go in after the first sentence which reads -- "These discounts are taken before the Inventory reaches Head Office". Have I made that clear?

MR. McRUER: Yes, if we just draw a circle around those two sentences and put them in at the end of the first sentence of the paragraph --

MR. HEWARD: And the round sum discounts are taken at head office.

MR. McRUER: Yes; now, I have a very express criticism to make of this company in respect to its 1935 and 1936 balance sheets. The Companies' Act was changed --

THE COMMISSIONER: Where do you deal with that?

MR. McRUER: The foot of page 391. The Companies' Act was changed in 1935 so that there should be more specific information given in regard to the manner in which inventories were taken, and this company published

47. WATSON: The third paragraph from the bottom
page 390. "After the inventory was made of the
it is then subjected to further examination."
THE COMMISSIONER: You say something should be

added there?

48. WATSON: The last sentence of the paragraph
should go in after the first sentence; that is the

THE COMMISSIONER: "In the cloth room--"

49. WATSON: "For example, on the inventory in
the living room they are 204 and 101. These discs
were set up many years ago, (on the inventory). In the
cloth room they are 204 and 25." Those two last

sentences should go in after the first sentence which
reads -- "These discs are taken before the inventory
begins and office." Have I made that clear?

50. WATSON: Yes, it is just from a circle
around these two sentences and put them in at the
end of the first sentence of the paragraph --

51. WATSON: And the word and discards are
added at the end of the paragraph.

52. WATSON: Yes; now, I have a very extensive
criticism to make of this company in respect to its
1935 and 1936 balance sheets. The "unadjusted" net
was changed --

53. WATSON: There is one deal with that?
54. WATSON: The fact of page 391. The Commission
has the balance in 1935 and 1936. The balance in
1935 and 1936 balance sheets. The "unadjusted" net
was changed --

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these balance sheets -- if you would just get me
the balance sheets, Mr. Whitely, exhibit 938. Now,
the balance sheet, the inventories are shown -- the
foot of page 391 -- raw cotton less reserve \$1,720,119.73.
5 Merchandise and supplies \$2,310,524.14. "As determined
by the management and valued (1) As to Raw Cotton at
less than the prevailing market price". Well, there
was a statement in regard to the raw cotton that there
was a reserve, but then we come to the merchandise and
10 supplies. "(2) As to Merchandise and Supplies on basis
of cost or market price, whichever was lower". Now,
that is not the basis on which merchandise and supplies
were valued. They were valued on the basis I have set
out in my brief, with these elaborate discounts that
15 would run from 20 to 25%, and in addition to that
arbitrary discounts of \$380,000 put on at the head
office. Now, Mr. Glassco, who appeared for the company,
was asked in the evidence --and I have quoted from his
evidence at page 392 -- in reference to the statements,
20 the annual statements of 1935 and 1936,--

"Q.....in reading that you, as an
accountant, would deduce from it that the inventory
of stock, merchandise and supplies was valued
25 on the basis of cost or market, whichever was
lower? A. Yes, I would deduce that that
was the case."

THE COMMISSIONER: Well, nobody could deduce
anything else.

MR. McRUER: I would not think so.

THE COMMISSIONER: It is not a question of

these balance sheets -- if you would just go to me

the balance sheets, Mr. White, Exhibit 333. Now,

the balance sheet, the inventories are shown -- the

foot of page 331 -- raw cotton less reserve \$1,750,113.73

merchandise and supplies \$2,519,524.14. "As determined

by the management and valued (1) as to raw cotton as

less than the prevailing market price". Well, there

was a statement in regard to the raw cotton that there

was a reserve, but then we come to the merchandise and

supplies. "(2) as to merchandise and supplies on basis

of cost or market price, whichever was lower". Now,

that is not the basis on which merchandise and supplies

were valued. They were valued on the basis I have set

out in my brief, with these elaborate diagrams that

would run from 20 to 25%, and in addition to that

arbitrary discount of \$300,000 put on at the head

office. Now, Mr. Glasco, who appeared for the company,

was asked in the evidence -- and I have quoted from his

evidence at page 332 -- in reference to the statement,

the annual statements of 1935 and 1936, --

"4. in stating that you, as an

accountant, would deduce from it that the inventory

of stock, merchandise and supplies was valued

on the basis of cost or market, whichever was

lower? A. Yes, I would deduce that the

was the case."

THE COURT: Well, nobody could deduce

deducing; it is just reading.

MR. McRUER: Then, we come to page 393. I have quoted there from my examination of Mr. Glassco in respect to what he, as an accountant, would say, having knowledge of the inventory --

"'Q. There is one other thing in regard to valuations. I have been furnished with a statement in regard to Form T2' "-- just a moment, that is not the thing I want. I asked Mr. Glassco if he, as an accountant, would say that was a correct statement, having regard to all his knowledge of it, and he said that he would not say that it was a correct one. I cannot conceive why the company ever published it. There was a certificate, as your lordship will see, by the auditor there, too.

THE COMMISSIONER: In that particular year what would have been the difference?

MR. McRUER: Pardon?

THE COMMISSIONER: In that particular year, that is the year 1936, adopting this balance sheet, what would have been the difference if merchandise and supplies had been put upon the basis of cost or market price, whichever was lower? Have you got that?

MR. McRUER: Page 392, my lord.

THE COMMISSIONER: You have shown it, have you?

MR. McRUER: Yes, page 392. Exhibit 947 shows that the inventory reserve in regard to raw cotton -- as to goods in process and finished goods and supplies from 1915 to 1936 was never lower than \$1,033,930.76 and as high as \$3,149,662.26. I can

...of the ...

MR. BRYCE: Then, we come to page 202. I have

quoted there from my examination of Mr. ...

...of the ...

Knowledge of the inventory --

...There is one other thing in regard to

...I have been furnished with a ...

...in regard to item 23 -- just a moment, the

...I want to say I want to ...

...as an accountant, would say that was a correct state-

ment, having regard to all his knowledge of it, and

said that he would not say that it was a correct one.

I cannot conceive why the company ever published it.

There was a certificate, as your friendship will see,

by the auditor there, too.

THE COMMISSIONER: In that particular year what

would have been the difference?

...the ...

THE COMMISSIONER: In that particular year,

that in the year 1930, adopting this balance sheet,

what would have been the difference if merchandise

and supplies had been put upon the basis of cost or

market price, whichever was lower? Have you got it?

MR. BRYCE: Page 202, my lord.

THE COMMISSIONER: You have shown it, have you?

MR. BRYCE: Yes, page 202. Exhibit 947 shows

...the ...

...as to goods in process and finished goods and

...the ...

...the ...

...the ...

give your lordship exactly what it was in 1936.

1936 was \$1,360,096.16.

THE COMMISSIONER: What is that? That is merchandise and supplies?

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MR. McRUER: Yes, my lord.

THE COMMISSIONER: Was what?

MR. McRUER: \$1,360,096.16.

SECRETARY WHITELEY: Is that the reserve?

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THE COMMISSIONER: Is that the reserve up to that time?

MR. McRUER: No, that is the reserve in 1936.

THE COMMISSIONER: That is to take the place of what then?

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MR. McRUER: That is on the goods in process, my lord.

THE COMMISSIONER: That is added to the \$2,310,000; is that right?

MR. McRUER: That would be added to the \$2,310,000.

20

MR. HEWARD: No.

MR. McRUER: Yes, that is right.

THE COMMISSIONER: Now, I don't want to make a mistake about it. This figure you just gave me, \$1,360,000, is that to be added to the \$2,310,000?

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MR. McRUER: Yes, my lord.

THE COMMISSIONER: And that is on account of merchandise and supplies alone?

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MR. McRUER: Yes; raw cotton is quite separate from that. Then, I have quoted from Mr. Elliott's evidence at the foot of page 393 in regard to what he

give your lordship exactly what it was in 1936.

1936 was \$1,350,000.12.

THE COMMISSIONER: What is that? That is what

merchandise and supplies?

MR. MORRIS: Yes, my lord.

THE COMMISSIONER: Was what?

MR. MORRIS: \$1,350,000.12.

THE COMMISSIONER: Is that the reserve?

THE COMMISSIONER: Is that the reserve up to the

1936?

MR. MORRIS: No, that is the reserve in 1936.

THE COMMISSIONER: That is to take the place of

what then?

MR. MORRIS: That is on the goods in process,

my lord.

THE COMMISSIONER: That is added to the

\$2,310,000; is that right?

MR. MORRIS: That would be added to the

\$2,310,000.

MR. MORRIS: No.

MR. MORRIS: Yes, that is right.

THE COMMISSIONER: Now, I don't want to make a

statement about it. I am going to say that

\$1,350,000, is that to be added to the \$2,310,000?

MR. MORRIS: Yes, my lord.

THE COMMISSIONER: And that is on account of

merchandise and supplies?

MR. MORRIS: Yes, my lord.

THE COMMISSIONER: Now, I want to say that the

balance of the fund of \$2,310,000 is to be added to

expects in regard to the nature of disclosure.

Now, Montreal Cottons is in precisely the same position as the Dominion Textile Company at the present time, but, as your lordship will recollect, there was a change made in the manner of valuing the inventory reserve in the Montreal Cottons Company after the Dominion Textile Company took it over. Just when that change was made -- I don't know that it was after Dominion Textile took it over. There was a change made, at any rate, at some time. We haven't got the definite date, but it would be a very important matter in regard to taxation to know when that change was made in the system that prevailed before. We haven't got that. It has been referred with the evidence to the proper taxing authorities, but they make the same statement -- they err, rather, in their statement to the shareholders in the same way as Dominion Textile has erred. For instance, at page 395 I have quoted from the statement of the shareholders for the year 1933. Raw cotton is stated to be at \$251,368.60; stock manufactured and in process at \$1,012,132.53 and supplies at \$199,554.32.

THE COMMISSIONER: That is at page 395?

MR. McRUER: Yes.

MR. HEARD: Mr. McRuér, in the next paragraph might I ask for a correction there? You say:

"Assuming Mr. Gordon's statement to be correct that raw cotton was taken into the inventory at a basis of 5¢ a pound"--

You mean inventory of process and manufactured goods.

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experts in regard to the nature of the business.

Now, Montreal Cottons is in precisely the

same position as the Dominion Textile Company at

the present time, but, as your Lordship will recollect,

there was a change made in the manner of valuing the

inventory made in the Montreal Cottons Company

after the Dominion Textile Company took it over.

Just when that change was made -- I don't know that I

was after Dominion Textile took it over. There was a

change made, at any rate, at some time. We haven't

got the definite date, but it would be a very important

matter in regard to taxation to know when that change

was made in the system that prevailed before. We

haven't got that. It has been referred with the

evidence to the proper taxing authorities, but they

make the same statement -- they say, rather, in their

statement to the authorities in the same way as

Dominion Textile has stated. For instance, at page

285 I have quoted from the statement of the share-

holders for the year 1925, and cotton is stated

to be at \$251,338.00; stock manufactured and in

process at \$1,012,132.00 and supplies at \$120,304.33.

THE COURT (HIS HONOUR): That is at page 285.

THE HON. CH. J. ROY: Now, in the next paragraph.

right I ask for a correction there? You say:

"Assuming Mr. Gordon's statement to be correct

that the cotton was taken into the inventory

You mean inventory of process and manufacturing goods.

Raw cotton was never taken in with Dominion Textile Company at five cents a pound, as raw cotton.

MR. McRUER: No, it is raw cotton taken into process and manufactured goods.

5 MR. HEWARD: It should be process and manufactured goods.

THE COMMISSIONER: What change does that require?

10 MR. HEWARD: After the word "inventory" the words "of process and manufactured goods". Raw cotton was taken -- it had a reserve against it in the Dominion Textile and then, as I remember it, the evidence was it worked out at $6\frac{1}{4}$ cents a pound; isn't that right?

15 MR. McRUER: It was taken in on the basis of five cents plus the variation in the type of cotton, whether it was long staple or short staple, but with the Dominion Textile Company it worked out about $6\frac{1}{4}$ cents a pound, but five cents was the base. However, I haven't attempted to go into those details by
20 working this out because we haven't got the information on them. It is only a question of principle. For instance, suppose the range is as high as a discount of 75%, according to Mr. Gordon's evidence. Then, it is a very important matter when we have in the
25 inventory \$199,000 worth of supplies, and if it was subject to discounts ranging up as high as 75% a good bit of profit of the Montreal Cottons could be--

30 MR. HEWARD: Well now, Mr. McRuer, you remember he distinguished between several kinds of supplies, and it was only some kinds of supplies --

Now cotton was never taken in with Hamilton Textile Company at five cents a pound, as was cotton.

MR. MONTGOMERY: No, it is raw cotton taken into

factories and manufactured goods.

MR. MONTGOMERY: It should be process and manufacture

goods.

THE HON. MEMBER: That is not what I mean.

MR. MONTGOMERY: After the word "manufacture" the

words "of process and manufacture" goods. Now

cotton was taken -- it had a reserve against it in the

Hamilton Textile and then, as I remember it, the

evidence was it worked out at 45 cents a pound; isn't

that right?

MR. MONTGOMERY: It was taken in on the basis of

five cents plus the variation in the type of cotton,

whether it was long staple or short staple, but with

the Hamilton Textile Company it worked out about 45

cents a pound, but five cents was the base. However,

I haven't attempted to go into these details by

working this out because we haven't got the information

on them. It is only a question of principle. For

instance, suppose the range is as high as a discount

of 75%, according to Mr. Gordon's evidence. Then,

it is a very important matter when we have in the

Hamilton Textile, for example, and so on.

and so on. I am not going to go into these details

now. I am only going to say that the evidence is

that the Hamilton Textile Company was not a

discriminated against in the matter of

the 75% discount.

MR. McRUER: Yes, that is quite right. I said ranging up as high as 75%.

MR. HEWARD: You cannot apply that 75% to the whole \$199,000. He says:

5 "Our practice is to use the current market unit values for the various items, and the total value of that group of items is then subject to a percentage group which, while steady for the group, varies between one group and another according to the nature of the items in each group. Coal is not subject to any discount, but is taken at full market value. The general run of supplies, not likely to be influenced by changes in style trends, etc., are subject to a fixed percentage discount of 25%. Certain types of supplies of an unmarketable nature, or which are liable to be rendered obsolete or slow moving by reason of change in style of goods, etc., such as certain classes of dye 15 stuffs, are discounted up to 75%."

20 So it would not be fair to apply the 75% to the whole of that item of supplies.

25 MR. McRUER: I think I have been quite clear in what I said, that they are subject to discounts that range as high as 75%. Take it at 50%, for instance, or 25%, which is the minimum mention, and then after you have reduced it you come down to \$199,000; you have made a good big discount off something.

30 MR. HEWARD: The minimum is zero for coal.

MR. McRUER: Yes, I know, but coal doesn't amount

TABLE

... up as high as 75%.

MR. HOWARD: You cannot apply that 75% to the ...

... practice is to use the current market unit values for the various items, and the total value of that group of items is then subject to a percentage group which, while steady for the ...

... according to the nature of the items in each group. ... is not subject to any discount, but is taken at full market value. The general ...

... of supplies, not likely to be influenced by changes in style trends, etc., are subject to a fixed percentage discount of 25%. Certain types of supplies of an unmarketable nature, which are liable to be rendered obsolete or slow moving by reason of change in style of goods, etc., such as certain classes of ...

... it would not be fair to apply the 75% to the whole of that item of supplies.

MR. HOWARD: I think I have been quite clear in ... Take it at 50%, for instance, ... which is the minimum mention, and then after ...

... have made a good big discount off something.

... the ...

to much, not on the 31st of March, you have burned it all, and it is run by water power. However, that is something that they will have to answer for before another authority, but what is more important to us is what they say to the public, and what they say in their financial statements.

Again in 1935 in the statement put out in regard to inventory they say ;; "As to Raw Cotton - at less than prevailing market prices. (2) As to Merchandise and Supplies - on basis of cost or market, whichever was the lower".

MR. HEWARD: They also mention the reserve.

MR. McRUER: Yes, there is a reserve mentioned in that year, but not prior to that. So that I just wonder how far the system of valuing was disclosed to their accountants.

THE COMMISSIONER: That is rather a strange statement there that the raw cotton -- "as to raw cotton - at less than prevailing market prices"-- without saying how much less.

MR. McRUER: No.

THE COMMISSIONER: Are the auditors satisfied with that sort of information?

MR. McRUER: I cannot see how auditors could be satisfied with this statement at all, but it is for the auditors to say.

THE COMMISSIONER: That is not auditing, surely, to take a loose statement of that sort; the value of the raw cotton, which is a very considerable thing, at less than prevailing market prices.

to much, not on the line of error, you have turned
it off, and it is run by water power. However,
that is something that they will have to answer for
before another meeting, but what is your intention
to do as far as the water power is concerned?
say in their financial statements.
again in 1930 in the statement put out in regard
to inventory they say: "As to raw cotton - at less
than prevailing market prices, (2) as to merchandise
and supplies - on basis of cost or market, whichever
was the lower".
MR. HENRI: They also mention the reserves.
MR. McNEIL: Yes, there is a reserve mentioned
in that year, but not prior to that. So that I just
wonder how far the system of valuing was disclosed to
the public.
THE COMMISSIONER: That is rather a strange ques-
tion there that the raw cotton -- "as to raw cotton -
at less than prevailing market prices" -- without saying
how much less.
THE COMMISSIONER: And the auditors satisfied
with that sort of information?
MR. HENRI: I cannot see how auditors could be
satisfied with this statement at all, but it is for
the auditors to say.
THE COMMISSIONER: That is not auditing, surely,
to take a loose statement of that sort; the value of
raw cotton, which is a very considerable thing,
at less than prevailing market prices.

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MR. McRUER: I regretted I did not ask Mr. Glassco about that specifically because Mr. Glassco is connected with this firm --

MR. HEWARD: No, he isn't, not now.

MR. McRUER: Was he not at that time?

MR. HEWARD: I don't know how long ago they split off.

MR. McRUER: In 1933 I see it is Clarkson, McDonald and Currie.

MR. HEWARD: Then he was there.

MR. McRUER: He would not be in 1935.

MR. HEWARD: I understand the two firms, which had been merged before, separated.

MR. McRUER: Apparently the name was changed between 1933 and 1935, at any rate, so that is likely when he disassociated from them.

Then, I do not intend to go into any detail with regard to the Drummondville Cotton Company. The evidence was its inventory was valued on the same basis. They started up new in 1929 as far as the Dominion Textile Company is concerned, and I should think that insofar as that company may have made profits it will be ^a very important matter there, because there are no losses, previous losses to credit or offset against the rise and fall of the profits due to the contraction and expansion of the inventory.

MR. HEWARD: One will offset the other.

MR. McRUER: Yes, but you are not allowed to do that. That is the difficulty. You cannot take

MR. NOBIL: I regretted I did not ask Mr. Glass
about that specifically because Mr. Glass is
connected with this firm --
MR. NOBIL: Was he not at that time?
MR. NOBIL: I don't know how long ago they
split off.
MR. NOBIL: In 1933 I see it is Vancouver, Wash.
and Ontario.
MR. NOBIL: Then he was there.
MR. NOBIL: He would not be in 1933.
MR. NOBIL: I understand the two divisions
had been merged before, separated.
MR. NOBIL: Apparently the name was changed
between 1933 and 1935, at any rate, so that is
likely when he dissociated from them.
Then, I do not intend to go into any detail
with regard to the Dominionville Cotton Company. The
evidence was the inventory was valued on the same
basis. They started up new in 1933 as far as the
Dominion Textile Company is concerned, and I should
state that inventory was not taken any more.
Inventory is still taken, inventory was taken,
because there are no losses, previous losses to
credit or offset against the rise and fall of the
inventory and the valuation and depreciation of the
inventory.
The inventory was still taken the same.
The inventory was still taken the same.

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your profits you make in your year of profits and
arrange your inventory so as to absorb those in
profitable years and expand them in years of losses
so as to avoid payment of income tax. You must pay
your income tax in the year you make the profit, and
you do not pay any when you make losses.

MR. HEWARD: You said we did not make a loss; you
said we had profits all the time.

MR. McRUER: No, I don't know whether you have
profits or not.

MR. HEWARD: I thought you said we made profits
all the time.

MR. McRUER: No, I am making no statement as to
that at all.

Now, I have dealt in my brief with the relations
with the Customs Department. I don't think I need
to go over that. It is all very clear, what I have
had to say there. That is in reference to making
up these sample bits to show to the Customs Depart-
ment in order that they might rule that certain goods
were of a class or kind made in Canada so that
dumping duties would be imposed when, as a matter of
fact, the samples were just made for the express
purpose of showing them to the Customs Department,
and that is the habutai silk incident. Then, we
had Montreal Cottons engaged in something of a
similar enterprise running over a long period of years
where importers were being bothered by having a
ruling that cotton crepe was made in Canada at

5 Montreal Cottons, and then he writes to Montreal
Cottons and says "I want to know what you will quote
on this" and then they fuss around and they discover
it is not made by Montreal Cottons although they
have said to the Customs Department they are making
it. Then, the Customs Department inquire from them
again and they say "no, we have not perfected this
yet" so they get a ruling -- the importer has a ruling
he is entitled to a rebate. Then, he imports some
10 more and then there is another ruling it is made in
Canada by Montreal Cottons, and as I recollect again--

THE COMMISSIONER: They don't want the rebate back,
do they?

15 MR. McRUER: No; he paid his duties and then he
inquired of Montreal Cottons how they are getting
along making it and then discovered they were not
making it, and they are not making it yet. It has
run over a long time and this poor old importer
has been dickering around between them and the
20 Customs Department. Then, there is the correspondence
with Vancouver. It had a fairly good protective
influence. I think the importer would throw up his
hands some time before he got through and say "well,
I cannot be bothered dealing in this cotton crepe
25 because I cannot tell whether I am going to have to
pay dumping duty on it or not".

30 Then, I deal with the representations to the
Government at page 413, their relations with the
Tariff Board. I don't think there is any necessity
for my dwelling on that aspect of it, but I do want

Montreal Cottons, and then he writes to Montreal
Cottons and says "I want to know what you will quote
as the price of the cottons which you are selling."
It is not made by Montreal Cottons although they
are in the same business. They are selling
it. Then, the Customs Department inquire from them
again and they say "no, we have not protected this
yet" so they get a ruling -- the importer has a ruling
he is entitled to a rebate. Then, he imports some
more and then there is another ruling it is made in
Canada by Montreal Cottons, and as I recollect again
THE GOVERNMENT: They don't want the rebate but
do they?
MR. MONTGOMERY: No; he paid his duties and then he
inquired of Montreal Cottons how they are getting
along making it and when discovered they were not
making it, and they are not making it yet. It has
run over a long time and this poor old importer
has been dithering around between them and the
Customs Department. Then, there is the correspondence
with Vancouver. It had a fairly good protective
influence. I think the importer would throw up his
hands some time before he got through and say "well,
I cannot be bothered dealing in this cotton crop
because I cannot tell whether I am going to have to
pay duties or not."
Then, I deal with the representations to the
Government at page 410, their relations with the
Tariff Board. I don't think there is any necessity
for my dwelling on that aspect of it, but I do want

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to say something in connection with their relations
with the investing public, because it brings us--

THE COMMISSIONER: Did you say the investing
public?

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MR. McRURER: The investing public, yes, my lord.
Probably I might just deal with that, my lord, after
intermission.

-- The Commission adjourned for a short recess.

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(page 14915 follows)

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-- On resuming at 4.05 P.M.

5 MR. McRUER: There is just one further matter
that I wish to deal with, my lord, and that is the
problem that confronts us in dealing with a protected
industry where the experience has been, as it has been,
that take, for instance, the Dominion Textile Company,
Canadian Cottons, Penman's, Wabasse Cotton Company
and these companies that have issued stock from year
10 to year or additional stock at different times which
has been issued either for goodwill, so-called goodwill,
or has been some promoters' profits on turning over
the constituent parts of certain companies that have
15 been merged into one company, and stock of that
character that ought never to have been issued in a
protected industry, because it is taking advantage
of the tariff to give value to something that has
no value, as it is something for which nothing has
20 been paid, and when we find that situation exists
and has gone on for some time and then that stock
gets into the hands of outside people, the promoters
have floated it out through the stock exchanges to
others and it embarrasses these governments because
25 the Government said, "Now, the tariff has been too
high in the past, we must reduce it. The consumers
have been called upon to pay too much in the past
and now the tariff is higher than ever it was before."
30 We are faced with the proposition that is brought up
by Mr. Dawson in his letter in Exhibit 464, page 423.

...on Monday at 4.00 P.M.

MR. MORRIS: There is just one further matter
that I wish to deal with, my lord, and that is the
problem that confronts us in dealing with a protected
industry where the experience has been, as it has been
that some of the industries, the industries of the
country, have been... and these companies that have issued stock from year
to year or additional stock at different times which
has been issued either for good will, so-called good will
or has been some promoters' profits on turning over
the company with a view to making a profit...

...been merged into one company, and stock of that
character that ought never to have been issued in a
protected industry, because it is taking advantage
of the tariff to give value to something that has
no value, as it is something for which nothing has
been paid, and when we find that situation exists
and the fact is that the time has come when we must
have floated it out through the stock exchanges to
others and it embarrasses these governments because
the Government said, "Now, the tariff has been too
high for some time, we must reduce it. The Government
have been called upon to pay too much in the past
and now the tariff is lower than it was before
and we are faced with the proposition that the Government
are in a position in which they are...

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I have quoted an extract from the letter, where Mr. Dawson was objecting to the new trade agreement with Japan or objected to the Government entering into a new trade agreement with Japan. This was on the 29th of November 1935, and he said:

"Because my own company is becoming hoary with age, a great many of the shares are now owned by widows and orphans. Some three or four years ago when we had to discontinue paying dividends it was simply heart-breaking to me to receive personal calls and letters from people who informed me that the withdrawal of our dividends brought them on the verge of starvation."

And the fact is that that stock was issued as a stock dividend on the strength of profits that had been created by the tariff protection the Company had had in the past and here he demands the return to the widows and orphans, not to the people by whom the stock was originally owned but to others. It is a very unfair position for the Government to be put in. What can be done in regard to the future is the problem for the Government to face. In the first place I suggest that too serious regard to this cannot be paid because the consumers as a whole have to be considerate, not those investors who have invested in stock that has been at some time or other improperly

... an extract from the latter, where Mr.
Dawson was objecting to the new trade agreement with
Japan or objected to the Government entering into
a new trade agreement with Japan. This was on the
24th of November 1906, and he said:
"Because my own company is becoming heavily
with age, a great many of the shares are now
owned by widows and orphans. Some three
or four years ago when we had to discontinue
paying dividends it was simply heart-breaking
to me to receive personal calls and letters
from people who informed me that the withdrawal
of our dividends brought them on the verge
of starvation."
and the fact is that that stock was issued as a stock
dividend on the strength of profits that had been
created by the tariff protection the Company had had
in the past and here he demands the return to the
widows and orphans, not to the people by whom the
stock was originally owned but to others. It is a
very unfair position for the Government to be put in.
There can be done in regard to the future is the profits
for the Government to lose. In the first place I
think that no serious regard to this cannot be
paid because the consumers as a whole have to be
satisfied, not those investors who have invested

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5 floated out on the public and the government has been
asked to provide a tariff that would provide dividends
on that stock. Take the Penman common stock for
instance, all of it promoters' stock and now out in
the hands of the public. Well, certainly for the
future it seems to me there ought to be some course
taken to prevent companies that are enjoying the
benefit of protective tariff merging together, floating
10 watered stock or any kind - you can call it water,
bonus of promoters' stock - whatever it is, but stock
that is floated out on the strength of reserves built
up out of the earnings of the profits which have
accrued to the company by virtue of the protective
15 tariff. And in addition to that, on the strength
of goodwill as they call it, that is only created
by the protective tariff, that something in the future
could very well be done to protect the consumers
from the position that the consumers are in at the
20 present time being any further aggravated.

Now, one last word and I am through, and that
is that I want to clear up any misunderstanding that
25 may have come to anyone in respect to what I have
said in regard to any remedy that should be prescribed
to take care of the excessive excess profits that
have been shown in this industry, and I submit we
have had abundant evidence of very excessive profits
30 in the past. I am not suggesting that your lordship

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limited out on the public and the Government has been
 asked to provide a tariff that would provide dividends
 on that stock. Take the German common stock for
 instance, all of it promoters' stock and now out in
 the hands of the public. Well, certainly for the
 future it seems to me there ought to be some course
 taken in respect to the stock of the companies.
 I think it is possible to have a tariff which would
 be a tariff on the stock of the companies, and that
 that is floated out on the strength of reserves built
 up out of the earnings of the profits which have
 been made by the companies in the past. I think
 that in addition to that, on the strength
 of goodwill as they call it, that is only created
 in the past, and that is the reason why the
 could very well be done to protect the consumers
 from the possibility of the companies being able to
 present time being any further aggravated.
 Now, one last word and I am through, and that
 is that I think it is a very important thing
 we have come to anyone in respect to what I have
 said in regard to any remedy that should be prescribed
 to take care of the excessive excess profits that
 have been made in the industry, and I submit to
 you that it is a very important thing that we should
 in the future. I am now suggesting that we should

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recommend that there be any government control of profits or that there be any government price-fixing, or any formula of that sort. The only effective formula that there is in the hands of the government, as far as I can see it, is a reduction of the tariff so that competition takes care of the price levels. Competition will take care of excessive profits. Competition will take care of price-fixing agreements. If the tariffs are low enough that competition is restored then the consumers' rights are taken care of, but as long as we have a protective tariff that is a prohibitive tariff in many angles, that is prohibitive to the extent that companies can make these excessive profits, the consumer is being exploited and I think the greatest national good that could come from this inquiry would be reductions in the tariffs, so that the consumers may be assured of competition from abroad and that they will not be excessively taxed by the domestic manufacturer.

THE COMMISSIONER: Let me put you a question, which you think is practically one in view of ~~just~~ what you just said - let us consider our British Preferential tariff. Now, you are appealing for the lowering of tariff, do you include that tariff too?

MR. McRUER: Yes.

THE COMMISSIONER: That tariff, as it has struck me very often, is based on the very principle that

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Recommend that there be any government control of
profits or that there be any government price-fixing,
or any formula of that sort. The only effective
formula that there is in the hands of the government,
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so that competition takes care of the price levels.

Competition will take care of excessive profits.

Competition will take care of price-fixing.

If the tariffs are low enough that competition is
restored then the consumers' rights are taken care
of, but as long as we have a protective tariff that
is a prohibitive tariff in many angles, that is pro-
hibitive to the extent that competition is not

excessive profits, the consumer is being exploited
and I think the greatest national good that could
come from this industry would be reductions in the
tariffs, so that the consumers may be assured of
competition from abroad and that they will not be
excessively taxed by the domestic manufacturers.

THE CHAIRMAN: Let me put you a question,
which you think is practically one in view of the
what you just said - let us consider our British

preferential tariff. Now, you are appealing for the
lowering of tariff, do you include that tariff too?

MR. McNEIL: Yes.

THE CHAIRMAN: That tariff, is it not

as very often, is based on the very principle that

you enunciate - the tariff shall be based on the principle that protective duties shall not exceed such a level as will give the United Kingdom producers full opportunity of reasonable competition, on the basis of the relative cost of economical and efficient production.

You say that is what you are asking for, is not it? You say, whatever tariff we have in the future should be one based on the principle of reasonable competition, is that right?

MR. McRUER: Yes.

THE COMMISSIONER: I understand you to say, then, that the present British Preferential Tariff sins against its own principle, that it is too high.

MR. McRUER: It is or this condition would not exist - that is, insofar as the competition comes from Great Britain.

THE COMMISSIONER: You mentioned that principle of reasonable competition, I suppose in the interest of the consumer as well as in the other countries - I want to know whether you think the charge you are making against the tariff is applicable to the British Preferential Tariff as well as the others?

MR. McRUER: Most assuredly so or my contention would be without foundation, because I say that here we have on the one hand ---

THE COMMISSIONER: It is one thing to say that the General Tariff is too high, does not afford

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The Commission: It is one thing to say that
the present tariff is too high, and another

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reasonable competition to countries which come within its provision. It is another thing to say that the intermediate tariff is too high and does not afford reasonable competition to countries which come within its provision, and then there is the third thing to say - even the British Preferential Tariff is too high, and that is what you are saying.

MR. McRUER: Yes, and in addition to that ---

THE COMMISSIONER: You say that the principle of competition for the sake of the consumer should apply to all our tariffs, - British Preferential, Intermediate and General.

MR. McRUER: Yes, because there should be no principle that hands over to industry an unlimited power of taxation of the consumer. The only power, to put the protective tariff on its strongest - that it should be as low as to provide at any rate for reasonable competition in the industry here.

Mr. KELLOCK: Does my friend mean a uniform level then?

MR. McRUER: No, because competition comes from different countries. We have our trade relations with other countries and we have reason for maintaining them but we have first, last and always, when we take from the consumer his free right to purchase, to consider the limit of the taxing power we give to the private industry and that that limit should

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ing them but we have first, last and always, when
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to consider the limit of the taxing power we give
to the private industry and what that limit should

be the very minimum.

I am through now. That is all, my lord.

THE COMMISSIONER: Well, I do not suppose it is
worth while now starting a new branch of the argument?

MR. MORUER: I understand that the French
Reporter, my lord, is not able to assume his duties
to-day but will be on Monday.

MR. BEAUREGARD: I will move the adjournment,
my lord, if it meets with your approval.

-- Adjourned at 4.15 P.M. to resume at 10.30 Monday,
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